



Real estate accounting and reporting 2025

Insights to support year-end reporting and what's ahead for the industry

November 2025



KPMG LLP (KPMG) publishes an annual report with the latest insights on financial accounting, regulatory, and compliance reporting requirements supportive to the real estate industry.

New for this year, we share our observations on key market trends before diving into the report's traditional reminders, new standards and guidance, FASB proposals, and emerging matters. We also summarize the impact of recent tax legislation.

Last year, we examined the impact of artificial intelligence (AI) and adoption trends in accounting and reporting. This year, we provide updates on how firms are using agentic AI and AI agents for improved efficiency and profitability.

We would be delighted to discuss the impact of the insights presented to your specific situations in more detail. We look forward to continuing to work with you to help effectively navigate the accounting and regulatory environment as well as support your efforts to achieve your broader business objectives.

Thank you,



Roger Yang

U.S. Industry Leader,
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1

Market observations— Navigating the shifting landscape of commercial real estate

Key industry themes for commercial real estate in 2025, and likely to remain in 2026, include the impact of interest rates, debt maturities and the rise of private credit, as well as the impact of rising costs in construction and insurance. See below for KPMG perspectives on the market and property types from our Economic Valuation Services professionals.

Market observations

Theme	Our perspectives
Interest rates have peaked and are stabilizing, impacting valuations and transaction volumes.	- Investors are focusing on assets with strong cash flow due to elevated capital costs. - The market is not fully normalized, with transaction volumes still below prepandemic levels.
A significant volume of debt is maturing, creating refinancing challenges, especially in the office and retail sectors.	- The refinancing challenge is acute in office and retail sectors with declining asset values. 30 percent of maturing loans in these sectors are at risk of default or need restructuring¹. - Distressed sales and loan workouts are expected to rise through 2026.
Private credit funds are filling the lending gap left by traditional banks, offering flexible but costly solutions.	- Private credit accounts for over 30 percent of new commercial real estate originations². - The shift is persistent for transitional assets and value-add projects. - Borrowers benefit from faster execution and tailored solutions but face higher rates. - Private credit is pivotal in funding acquisitions, refinancing, and recapitalizations.
Inflation and construction costs are squeezing margins, affecting new development projects.	- Elevated inflation and rising construction costs are delaying projects, particularly in multifamily and industrial sectors. Labor shortages and material price volatility are primary drivers. - Construction starts have decreased by 18 percent year-over-year due to these pressures³. - Developers are renegotiating contracts and seeking alternative materials. - Higher costs are squeezing margins and complicating underwriting. - Investors are factoring in higher replacement costs and longer timelines.
Insurance costs continue to rise	- Insurance premiums have risen from 2023 to 2025, particularly in climate-risk-prone areas, affecting net operating income and underwriting processes⁴. - Higher costs are leading to deal failures during due diligence phases. - Owners are exploring innovative risk mitigation strategies. - Insurance costs remain a critical factor in CRE investment decisions.

Artificial Intelligence (AI) transformations drive demand for data centers

- AI is transforming property management, leasing, and valuation processes.
- AI supports enhanced property valuation and investment decisions. Algorithms analyze vast datasets for market trends, comparable sales, and tenant behavior to provide accurate property valuations and identify investment opportunities. The market is actively working to understand how to best utilize AI across various areas.
- AI supports improved market analysis and site selection. Tools process demographic, traffic, and economic data to pinpoint optimal locations for expansion, helping companies make data-driven decisions faster and with greater confidence.
- AI platforms enable predictive maintenance recommendations and tenant experience optimization.

Property type observations

Theme	Our perspectives
 Multifamily remains resilient	• Multifamily remains resilient, with national occupancy rates above 95 percent and rent growth of 4 percent⁵. • Cap rates have increased, but investor interest persists due to strong fundamentals and the ongoing housing shortage⁶. • New supply is constrained by high construction costs and financing challenges, supporting continued rent growth and stable valuations.
 Office dynamics	• Office continues to face challenges, with vacancy rates at 18 percent nationally and values down 25 percent from 2021 peaks⁷. • Hybrid work and tenant downsizing are driving a flight to quality, with Class A assets outperforming older buildings. • Sublease space remains elevated, and investors are cautious, focusing on assets with strong location and amenity offerings.
 Industrial outperforming	• Industrial outperforms, with vacancy rates at 4 percent and rents up 8 percent year-over-year⁸. • E-commerce and logistics remain key tailwinds, and demand for modern, well-located facilities is robust. Developers face challenges from construction costs and tariffs, but fundamentals remain strong.
 Retail stabilizing	• Retail is stabilizing, with experiential and necessity-based retail outperforming legacy malls. • Cap rates average 6.5%, and transaction volume is up 10 percent from 2023 lows⁹. • Investors favor grocery-anchored centers and mixed-use assets, while traditional malls continue to face headwinds¹⁰.
 Data center and digital infrastructure demand driven by AI	• Data center construction is at record highs globally, with major markets (U.S., Europe, Asia) seeing unprecedented development activity. In the U.S., primary hubs like Northern Virginia, Dallas, Phoenix, and Atlanta are leading new starts, driven by hyperscale cloud providers and AI workloads. • Despite rapid construction, demand continues to outpace supply. Vacancy rates in top markets remain below historical averages, and pre-leasing of new facilities is common, reflecting robust tenant demand. • Demand is projected to remain strong over the next several years, fueled by cloud adoption, generative AI, and digital transformation across industries. • Despite rapid growth, there are significant challenges around power, sustainability, and costs. Demand remains robust, but long-term expansion will depend on overcoming infrastructure and environmental constraints¹¹.

Accounting reminders— Effective in 2025 for private companies

Reminders for certain new guidance previously effective for public companies and now effective January 1, 2025 for private calendar year-end companies.

FASB clarifies fair value guidance on contractual sale restrictions

In June 2022, the FASB issued guidance that amends Topic 820 (fair value measurement) to clarify that contractual sale restrictions are not considered in measuring the fair value of equity securities. In addition, the guidance¹²:

- Clarifies that an entity cannot recognize a contractual sale restriction as a separate unit of account (i.e., as a contra-asset or separate liability); and
- Requires new disclosures for all entities with equity securities subject to contractual sale restrictions.

The guidance will change practice for entities that currently factor contractual sale restrictions into their fair value measurements. This is particularly true for investment companies that have historically considered these restrictions in measuring equity securities at fair value.

All entities except for investment companies will apply this guidance prospectively. Investment companies have different transition requirements to mitigate the effect of adopting the guidance on their net asset value computations.

For public business entities, the new guidance was effective for annual and interim periods in fiscal years beginning after December 15, 2023. For all other entities, it is effective for annual and interim periods in fiscal years beginning after December 15, 2024.

Proportional amortization method election

In March 2023, the FASB issued guidance that expands the proportional amortization method (PAM). This guidance clarifies the criteria that a tax equity investment must meet to qualify for the PAM and allows an investor to elect the PAM for qualifying investments on a tax credit program-by-program basis. In addition, disclosures are required on an interim and annual basis for tax equity investments within tax credit programs for which the PAM is elected, regardless of whether the PAM is applied¹³.

The expansion of the PAM is effective for private companies for annual periods beginning after December 15, 2024. Investors in tax equity investments should assess whether to elect the PAM for a tax credit program.

FASB issues guidance on joint venture formations

In August 2023, the FASB issued guidance containing new accounting requirements for a joint venture (JV) formation. The guidance introduces Subtopic 805-60, which addresses current diversity in practice by specifying how to account for net assets contributed to a JV on the JV's formation¹⁴.

Specifically, in a JV formation transaction, a JV will be required to:

- Recognize a new basis of accounting for contributed net assets as of the formation date;
- Measure the contributed identifiable net assets at fair value on the formation date using the business combination guidance in Subtopic 805-20 (with certain exceptions), regardless of whether a venturer contributes a business;
- Measure the net assets' fair value based on 100 percent of the JV's equity immediately following formation;
- Record goodwill (or an equity adjustment, if negative) for the difference between the fair value of the JV's equity and its net assets; and
- Provide disclosures about the nature and financial effect of the formation transaction.

The guidance also provides various clarifications on applying the business combination guidance to a JV formation.

The guidance is effective for all JVs with formation dates on or after January 1, 2025.

Accounting reminders— Effective in 2025, or later for certain private companies

Reminders for certain new guidance effective January 1, 2025, for public calendar year-end companies and effective January 1, 2026 or later for private calendar year-end companies.

FASB provides examples to clarify scope of profits interest and similar awards

In March 2024, the FASB issued guidance that addresses practice issues related to scope application of profits interest awards. Determining whether a profits interest award should be accounted for as a share-based payment arrangement under Topic 718 (stock compensation) or as a bonus or profit sharing plan under Topic 710 (compensation) requires judgment based on the facts and circumstances of the specific transaction¹⁵.

The guidance introduces a new illustrative example that includes four fact patterns to demonstrate how an entity would apply the scope guidance in paragraph 718-10-15-3 to determine whether its profits interest awards should be accounted for under Topic 718. The guidance is intended to reduce complexity and diversity in practice.

For public business entities, the new guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2024. For all other entities, it is effective for annual and interim periods in fiscal years beginning after December 15, 2025. Early adoption is permitted.

The Private Company Council (PCC) originally raised this accounting issue to the FASB. However, after additional PCC and FASB staff research, the Board agreed that the issue affects both public and private companies that issue profits interest and similar awards.

FASB makes improvements to income tax disclosures

In December 2023, the FASB issued guidance that intends to enhance income tax disclosures. Among other things, the guidance significantly expands annual income tax disclosures by requiring much greater disaggregation of a company's effective tax rate and income taxes paid during the year based on certain prescribed categories¹⁶.

Under the new guidance, the effective tax rate reconciliation must include:

- Specific federal categories, such as tax credits, changes in valuation allowances, nontaxable or nondeductible items, and changes in tax laws or rates;
- State and local taxes;
- Foreign tax effects; and
- Changes to unrecognized tax benefits.

Certain categories are further disaggregated by nature based on a 5 percent threshold. In addition, foreign tax effects are disaggregated by country and by nature based on the 5 percent threshold—this means that a foreign jurisdiction would be disaggregated if either the country meets the threshold in total (net) or any underlying reconciling items meet the threshold (gross). For all categories, reconciling items must be presented on a gross basis unless netting is explicitly permitted.

To prepare for adoption, companies should be developing and executing on their implementation strategy, including:

- Reviewing and understanding the new requirements.
- Considering whether to adopt the standard prospectively or retrospectively. If applying retrospective adoption, companies will need to consider how to gather prior-year information, including the processes and controls to gather and present that information.
- Establishing a cross-functional team involving tax and accounting departments across all jurisdictions to ensure comprehensive compliance with the new requirements.
- Determining where disaggregated data is currently maintained.
- Considering leveraging technology and tax reporting software to streamline the data collection and disclosure process.
- Updating policies, processes and controls for the new required disclosures.

- Preparing draft income tax disclosures and discussing with their auditors and other internal stakeholders. Some companies plan to use 2024 actual results to draft the new income tax disclosures and decide whether to adopt the guidance retrospectively.

The guidance is effective for business entities in annual periods beginning after December 15, 2024, and for all other entities in annual periods beginning after December 15, 2025. While the guidance does not go into effect until year-end, public companies will need to consider the SAB 74 disclosure requirements when preparing their 2025 interim financial statements.



Looking ahead to new standards and guidance

FASB issues guidance addressing business combinations involving VIEs

In May 2025, the FASB issued guidance which modifies the Topic 805 (business combinations) framework for identifying the accounting acquirer in certain business combinations when the legal acquiree is a variable interest entity (VIE)¹⁷.

Current guidance states the primary beneficiary is the accounting acquirer of a VIE in a business combination even if Topic 805's general factors used to identify the accounting acquirer (which apply to other business combinations) suggest that the transaction would otherwise be a reverse acquisition. The current guidance has often led to counterintuitive results when a VIE is acquired in a business combination.

The Accounting Standards Update (ASU) is updated by requiring entities to use the general factors in Topic 805 to determine the accounting acquirer when a business combination involving a VIE is primarily effected through exchanging equity interests.

The determination of which entity is the accounting acquirer affects which assets and liabilities, if any, are remeasured at fair value at the acquisition date. If the transaction involves a registrant, this determination may also affect the form and content of current and

prior period financial statements included in public filings. In many cases, determining which combining entity is the accounting acquirer is obvious. In other cases, significant judgment is necessary to make the determination.

The guidance is effective for all entities for annual and interim periods in fiscal years beginning after December 15, 2026. Early adoption is permitted.

FASB requires new disaggregated income statement expense disclosures

In November 2024, the FASB issued guidance that addresses investor requests for more granular information about an entity's expenses, allowing investors to better understand performance, prospects for future cash flows and comparability over time. The primary goal is to improve the decision-usefulness of expense information on public companies' income statements through disaggregation of relevant expense captions in the notes to the financial statements¹⁸.

Preparers at the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments highlighted the significant preparatory work required ahead of adopting the standard, but expressed a general sentiment that the information will be very useful to management and investors.



The main provisions of the guidance are summarized below:

Main provision	Highlights
Relevant expense captions identified for disaggregation	A functional or natural expense line item on the face of the income statement within continuing operations containing any prescribed natural expense category (see below).
Prescribed natural expense categories presented separately for each identified relevant expense caption	• Purchases of inventory • Employee compensation • Depreciation • Intangible asset amortization • Depreciation, depletion, and amortization (DD&A) for oil-and-gas-producing activities • Depletion
Additional categories presented separately for each identified relevant expense caption	• Certain expense reimbursements • Specific expenses, gains and losses required to be disclosed by other U.S. GAAP • Other items (residual amount and composition) • Changes in inventories, if applicable • Other adjustments and reconciling items (amount and composition), if applicable
Selling expenses (narrative disclosure)	• Total amount of selling expenses • Description of the composition of this 'management' defined measure (annual only)

The guidance is effective for public business entities for annual periods in fiscal years beginning after December 15, 2026, and for interim periods in fiscal years beginning after December 15, 2027. Early adoption is permitted.

While adoption may seem distant, companies should use this time to educate themselves and prepare for the upcoming changes. Once adopted, most public companies will need to disclose more detailed information about their income statement expenses than they do currently, which may necessitate systems, controls, and process changes.

Companies should allow time to digest the new information, understand emerging trends, and assess how the data interacts with information already provided to investors, both within and outside the financial statements. For instance, while the guidance allows for prospective application of the new disclosures starting in 2027, it may be advantageous for companies to analyze and compare expense amounts across multiple periods sooner, before the information is communicated to stakeholders.

FASB provides relief for estimating expected credit losses

In July 2025, the FASB issued guidance offering targeted relief for entities applying Topic 326 (credit losses) to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606 (revenue from contracts with customers). Under the current credit loss model, entities estimate expected credit losses based on

relevant information about past events, current economic conditions, and reasonable and supportable forecasts of future economic conditions that affect the collectability of the reported amounts. Stakeholders have raised concerns about the cost and complexity of applying this model to short-term assets. The guidance addresses these concerns by introducing the following elective provisions¹⁹:

- **Practical expedient.** *Available to all entities*—allows an entity to forego developing reasonable and supportable forecasts of future economic conditions by assuming current conditions as of the balance sheet date will not change for the remaining life of the current accounts receivables and current contract assets.
- **Accounting policy election.** *Available to entities other than public business entities and may only be made if the above practical expedient is also elected*—allows an entity to consider cash collection activity after the balance sheet date when estimating expected credit losses on current accounts receivable and current contract assets.

The guidance is effective for all entities for annual and interim periods in fiscal years beginning after December 15, 2025. Early adoption is permitted for annual and interim financial statements that have not yet been issued.

5

Proposed guidance and emerging matters

FASB proposes to revise the scope of derivative accounting

The FASB proposed guidance that would exclude from derivative accounting (Topic 815) contracts that are not exchange traded with underlyings that are based on operations or activities of one of the parties to the contract. Contracts based on certain underlyings, such as market rates or indexes, would not qualify for the proposed scope exception. As a result of the proposal, more contracts and embedded features would be excluded from the scope of Topic 815. Companies would then be required to determine how to account for such contracts.

In addition, the proposal further clarifies that the revenue guidance in Topic 606 (revenue recognition) would apply when a share-based payment is consideration from a customer in exchange for the transfer of goods or services. Under the noncash consideration guidance in Topic 606, a share-based payment is measured at fair value at contract inception and recognized as an asset when the right to receive or retain the share-based payment is no longer contingent on the satisfaction of a performance obligation. Companies would only apply the guidance on derivatives (Topic 815) and equity securities (Topic 321) once the share-based payment is recognized as an asset under Topic 606.

FASB proposes improvements to interim reporting

Topic 270 (interim reporting) contains guidance on accounting and disclosure issues specific to interim reporting—i.e. for a period that is shorter than a fiscal year. In November 2024, the FASB proposed an ASU that would clarify interim reporting requirements by improving navigability of Topic 270 and more clearly specify what disclosures are required in an interim reporting period. It is not intended to significantly change interim reporting or expand or reduce interim disclosure requirements.

The proposed ASU has three primary objectives:

- *Clarify the form and content of interim financial statements.* The proposed ASU would specify the form and content choices for interim financial statements and accompanying notes.
- *List the required interim disclosures.* The proposed ASU would include a comprehensive list of required interim disclosures into Topic 270.

- *Provide a disclosure principle for condensed interim financial statements.* The proposed ASU would introduce a disclosure principle that would require disclosure of events and changes since the end of the previous annual reporting period that materially impact the entity.

The proposed ASU is intended to make the interim reporting requirements easier to understand and is not intended to change interim reporting. The comment period ended March 2025.

FASB proposes guidance on recognizing, measuring and presenting government grants

As more business entities receive government grants, determining how to recognize, measure and present them has become a more prevalent issue. The absence of US GAAP on accounting for government grants has resulted in diverse practices and left business entities to analogize to other GAAP or IFRS Accounting Standards. To address these concerns, in November 2024, the FASB proposed an ASU that would enhance Topic 832 (government assistance) to do the following:

- Prescribe an accounting model based on the main principles in International Accounting Standard 20 (government grants and government assistance), with revisions to areas such as scope and the recognition threshold. The guidance would apply to all entities, except not-for-profit entities and employee benefit plans.
- Define a government grant as a transfer of a monetary or a tangible nonmonetary asset, other than an exchange transaction, from a government to a business entity. The proposal's scope excludes exchange transactions, income tax items accounted for under Topic 740, the benefit of below-market interest rate loans and government guarantees.
- Provide a recognition threshold under which a grant would be recognized when it is probable that the entity will comply with the grant's conditions and that the grant will be received.
- Leverage existing disclosure requirements in Topic 832 for annual periods. (Some of these disclosures would only be required in the period the grant is recognized.)
- Create specific recognition and measurement guidance in Topic 805 for certain grant-related liabilities assumed in a business combination.

The comment period ended March 2025.

FASB proposes new guidance on the accounting for environmental credit programs

In December 2024, the FASB issued a proposed ASU on accounting for environmental credits and environmental credit obligations (ECOs). Stakeholders sought guidance in this area as more entities face regulatory compliance programs (e.g. cap and trade), commit to voluntary emissions reductions and invest in renewable energy. The current lack of guidance under US GAAP has led to diverse accounting practices.

The proposal would introduce new Topic 818, which aims to standardize the accounting treatment for environmental credits and ECOs. This includes specifying how entities should recognize, measure and disclose these credits and obligations to ensure transparency and comparability in financial statements.

Of note, the proposal would:

Define attributes of environmental credits and ECOs and limit Topic 818's scope to credits and obligations meeting these definitions;

- Require environmental credits to be accounted for based on how an entity intends to use the credits:
 - Environmental credits that are probable of being used to settle an ECO or transferred in an exchange transaction would be recognized as an asset;
 - The cost of all other environmental credits would be expensed as incurred;
- Require environmental credits that are probable of being used to settle an ECO (compliance credits) to be recognized at cost with no subsequent remeasurement, and all other environmental credits recognized as assets (noncompliance credits) to also be recognized at cost but be tested for impairment at each reporting date;
- Require funded ECO liabilities to be recognized based on the amount of credits needed to satisfy the obligation as if the reporting date were the end of the compliance period. A liability would be measured based on the carrying amount of compliance credits on hand (the funded portion). Any unfunded portion would generally be measured based on the fair value of credits the entity would need to purchase to satisfy the obligation;
- Require quantitative and qualitative disclosures about environmental credits and ECOs.

The comment period ended April 2025.



FASAC discusses KPIs, leases, consistency in US GAAP, forthcoming derivatives guidance, private credit and debt disclosures, and business combinations

The Financial Accounting Standards Advisory Council (FASAC) met in December 2024 and primarily discussed the FASB's Invitation to Comment on financial key performance indicators (KPIs).

Council members discussed the increasing relevance of financial KPIs for business entities—emphasizing their importance for companies and investors—and supported financial KPIs as a priority topic for the Board. They noted issues with comparability and consistency in financial reporting of the same KPIs across different companies and discussed a lack of transparency in the calculations of and adjustments made to financial KPIs reported by certain entities. Investors called for greater consistency in frequently reported KPIs, including EBITDA and free cash flow.

Council members had varied opinions on how the Board should address these issues. Some advocated for a narrow project to standardize definitions of key KPIs, while others preferred to allow management to disclose KPIs voluntarily. Another suggested approach was to require companies to disclose KPI information in the notes to the financial statements to enhance transparency. Other members recommended that the Board await implementation of recent standards, like ASU 2024-03 (disaggregation of income statement expenses), to see if greater disaggregation of financial reporting might organically address some of the concerns related to financial KPIs.

In March 2025 meeting, the FASAC discussed the Post-Implementation Review (PIR) of Topic 842 (leases), consistency within accounting standards, and the FASB's derivatives scope refinement project.

- **PIR of Topic 842.** Members acknowledged that the benefits of the leases standard generally justified the costs associated with its implementation and ongoing application. They provided feedback to the Board for potential improvements in the leases guidance and the standard-setting process. Investor members appreciated the enhanced disclosures for offering better insights into a company's leasing activities, although some noted that excluding estimated variable lease payments from lease liabilities could lead to incomplete information for investors. Practitioner and preparer members pointed out significant challenges related to data

and system readiness, as companies needed to gather and refine lease data, including nonstandard features, to meet the financial reporting and disclosure requirements. They also noted that implementation costs were higher than expected due to the substantial changes required in systems and processes. In addition, members shared mixed views about the proximity of implementing the leases standard alongside other major standards like Topic 606 (revenue recognition) with some suggesting that a Transition Resource Group could have facilitated smoother implementation.

- **Consistency within accounting standards.** Members discussed how the Board should consider consistency when amending US GAAP. Members discussed the implications of inconsistencies, such as having multiple definitions of a 'public entity', industry-specific guidance and diverse accounting models under US GAAP. Members acknowledged that pursuing broader consistency in US GAAP might not always be cost-effective. They noted that certain accounting differences are appropriate, particularly when industry-specific guidance or accounting based on management intent is involved. In addition, significant changes may not be warranted for well-established inconsistencies, which are generally understood and can be communicated through disclosures. Instead, members suggested that the Board focus on inconsistencies that create pervasive issues for stakeholders, aiming to reduce the extent of such discrepancies in future guidance.
- **FASB derivatives scope refinements project.** Some members raised concerns that certain options on debt instruments could qualify for the proposed scope exception from derivative accounting, potentially adding complexity in applying the scoping guidance under Topic 815. Further, because they believe the predominant characteristics assessment under current GAAP is rarely used in practice, some practitioners suggested that the Board use this project to provide additional qualitative factors in the derivatives guidance to assist in the assessment. Overall, members expressed support for the proposed guidance, aligning with feedback from comment letter respondents.

In a June 2025 meeting, the FASAC discussed private credit and debt disclosures and business combinations.

- **Private credit and debt disclosures.** Members discussed whether current U.S. GAAP disclosures for private credit borrowers and lenders provide sufficient decision-useful information. While most agreed that borrower disclosures are generally adequate—especially given the direct relationships between lenders and borrowers—some suggested enhancements such as covenant compliance, off-balance sheet arrangements, and liquidity disclosures to better inform other users like customers and vendors.

For lenders, members debated the usefulness of additional disclosures on borrower delinquencies, loan modifications and credit quality indicators. While some questioned their relevance for long-term investors (e.g., limited partners), others emphasized their value in assessing fund performance and risk.

Members also addressed fair value measurement challenges in private credit funds. While some noted that Level 3 inputs are not uniquely problematic, others highlighted the cost and complexity of valuing numerous small positions. Members favored disclosures that explain changes in fair value and portfolio risk over prescriptive valuation methodologies.

Finally, members noted the growing prevalence of private credit—including its use by large public companies and institutional investors—and suggested that disclosures about classification, terms and investment concentrations could enhance transparency.

- **Business combinations.** Members discussed whether improvements to U.S. GAAP are needed for business combinations and asset acquisitions. While the current guidance is generally seen as clear and operable, members noted that economically similar transactions can result in different accounting outcomes, which may be difficult to explain to stakeholders. Key concerns included: distinguishing organic versus acquired growth, especially for immaterial acquisitions; complexity in accounting for contingent consideration; differences in the recognition of certain intangible assets (e.g., in-process research and development, assembled workforce); and limited decision-usefulness of goodwill and goodwill impairment disclosures, particularly for serial acquirers. Members emphasized that investors are most interested in understanding what was acquired, how much was paid, and how the acquisition performs over time.

FASB proposes new guidance on the accounting for debt exchanges

The FASB issued proposed guidance (based on a consensus-for-exposure of the Emerging Issues Task Force) that would amend Subtopic 470-50 (modifications and extinguishments) to specifically address contemporaneous exchanges of cash between a debtor and creditor. The proposal intends to address issues stakeholders encounter when determining whether to evaluate the repayment and corresponding issuance of new debt with the same creditor collectively as an exchange under Subtopic 470-50 or separately as two distinct transactions (resulting in the extinguishment of the existing debt).

Currently, whether an exchange results in a modification or extinguishment of a debt depends on the outcome of a 10 percent cash flow test. Under the proposed amendments the debtor would automatically treat the exchange as a debt extinguishment if the following new criteria are met:

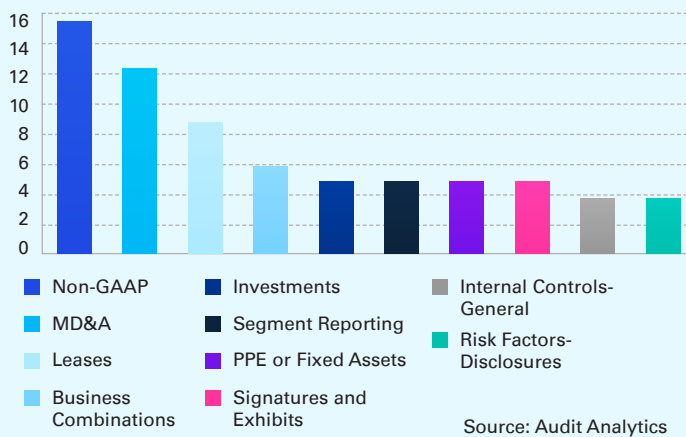
- The new debt obligation involves multiple creditors;
- The existing debt obligation has been repaid under its contractual terms or repurchased at market; and
- The new debt obligation was issued at market terms following the issuer's customary marketing process for issuing new debt.

The proposal would apply to all debtors that enter into transactions in the scope of Subtopic 470-50 that involve the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation with multiple creditors and the satisfaction of existing debt. For a transaction not meeting the proposed new criteria, the debtor would follow the current guidance by applying the 10 percent cash flow test (in paragraphs 470-50-40-10 to 40-12A) to determine whether to account for the exchange as a modification or extinguishment.

The comment period ended May 30, 2025.

The U.S. Securities and Exchange Commission (SEC) comment letter activity for the Real Estate sector over the past year reveals a clear focus on transparency, consistency, and compliance in financial reporting and disclosures. The analysis of comment letters issued between July 2024 and June 2025 highlights the following top trends:

**Top 10 SEC Comment Letter Trends
(July 2024—June 2025)**



In-Depth: The Top 3 SEC Focus Areas

Non-GAAP Measures

The SEC continues to focus on ensuring non-GAAP financial measures are compliant with Regulation G, Item 10(e) of Regulation S-K and the SEC staff's Compliance and Disclosure Interpretations on non-GAAP measures. Key areas of comments relate to reconciling to the most comparable GAAP measure, presenting the GAAP measure with equal or greater prominence, and including adjustments that resemble tailored accounting principles. Companies are also expected to justify the usefulness of these measures and provide proper disclosures for forward-looking figures.

MD&A (Management's Discussion & Analysis)

MD&A remains a central area of SEC focus, with comments spanning several subtopics:

- **Business Overview:** The SEC staff often request more specific information about business drivers, risks, and trends. Further, non-traded REITs that disclose net asset value are expected to discuss what factors impacted changes in net asset value.

- **Key Performance Indicators and Metrics:** There are SEC staff comments asking for clearer leasing disclosures, including tenant termination rights and annual effective rent per square foot/unit, considering the impact of free rent, abatements, tenant reimbursements, inducements, and tenant concessions.
- **Results of Operations:** The SEC staff seeks detailed explanations for significant changes in results of operations (i.e., period-over-period changes), requiring companies to provide clear, quantitative analysis rather than boilerplate language.
- **Liquidity and Capital Resources:** The SEC staff expects clear forward-looking liquidity analysis, distinguishing between short- and long-term needs, and discussing the rationale behind capital allocation decisions like share repurchase limitations.
- **Market Risks:** Companies are expected to discuss how market conditions impact their results and outlook.
- **Consistency and Completeness:** The SEC staff often refers to prior disclosures and expects companies to maintain or explain changes in content, especially regarding business descriptions, regulatory environments, and asset valuation methods.

Leases

SEC staff comments on leases focus on compliance with accounting standards, particularly regarding lease classification, collectability, lease commencement, and disclosure. The SEC staff expects companies to clearly explain their lease accounting policies, significant judgments, and the impact of lease arrangements on financial statements. This includes both lessor and lessee perspectives, as well as any off-balance sheet arrangements.

Conclusion

The SEC staff's comment letter trends underscore the importance of robust, transparent, and investor-focused disclosures in the real estate sector. Companies should proactively review their non-GAAP disclosures, MD&A narratives, and lease accounting practices to ensure compliance and reduce the risk of SEC scrutiny.

7

New Tax Legislation: The One Big Beautiful Bill Act

On July 4, 2025, President Trump signed the One Big Beautiful Bill Act (OBBBA or OB3) (Pub. L. No. 119-21), which made permanent many of the tax provisions of the Tax Cuts and Jobs Act (TCJA) while repealing several the incentive and credits from the Inflation Reduction Act (IRA).

Although the OBBB includes provisions important to the real estate industry, also noteworthy are provisions that were not included. Examples of excluded provisions that have been of concern to the real estate industry include:

- No change to the taxation of carried interests,
- Preservation of like-kind exchanges for real estate assets,
- No change to tax rates on capital gain,
- No limitation on the state and local deduction for corporate taxpayers (including REITs) including the deduction of real property taxes, and
- Currently, no “revenge” tax under what would have been new §899.

KPMG has prepared numerous more detailed reports on the changes which can be found [here](#). This summary is intended to provide highlights of the recent bill relevant to the real estate industry. These changes include the following.

Tax Rates, Deduction Limitations, and State Taxes

In general, the reduced maximum tax rate for individuals (37%) was extended permanently under the OBBBA. There was no change to the corporate tax rate, which therefore remains at 37%. The OBBBA makes the increase in the Alternative Minimum Tax exemption amounts from TCJA permanent but would revert the exemption phaseout threshold to 2018 levels of \$500,000 (or \$1,000,000 in the case of taxpayers filing a joint return). The OBBBA provides for limitations on the use of itemized deductions for taxpayers in the

highest marginal tax bracket, and permanently limits “miscellaneous itemized deductions.” Deduction for state and local taxes has temporarily been increased to \$40,000 (for married couples) for 2025. The allowable deduction begins to phase out for married couples with incomes of a threshold (initially \$500,000). In 2030, the deduction will revert to the \$10,000 limit in place prior to the OBBBA. The OBBBA also makes permanent the excess business loss limitation provisions under §461(l).

Section 199A

Section 199A provides for a 20% deduction with respect to qualified business income (including certain dividends from REITs). The OBBBA makes permanent the 20% deduction under §199A.

Depreciation

The OBBBA permanently reinstates the 100% first-year depreciation deduction under §168(k) for property acquired after January 19, 2025, and increases the dollar limitation for elective expensing under §179. The bill also provides for 100% expensing of costs related to the construction of specific manufacturing property which meets specific criteria.

Section 163(j)—Interest Expense Limitation

Under the TCJA, taxpayer’s deductible interest expense has been limited under §163(j) to 30% of the taxpayer’s earnings before interest and taxes (i.e., EBIT). The OBBBA reinstates an earlier limitation based on earnings before interest, taxes, depreciation and amortization (i.e., EBITDA) on a permanent basis, generally allowing taxpayers to currently deduct a relatively greater amount of their business interest expense for tax years beginning after 2024.

Residential Development and §460

The OBBBA allows condominium developers greater flexibility to use the completed contract method of accounting. This provision is effective for contracts entered into after July 4, 2025.

Qualified Opportunity Zones

The Qualified Opportunity Zone (“QOZ”) program under the TCJA provided taxpayer deferral and exclusion of certain gains invested in designated QOZs. The OBBBA makes the QOZ program permanent, with eligible QOZs designated every 10 years, and makes other changes to the program. The expansion also includes enhanced reporting requirements and additional penalties for non-compliance. QOZ 2.0 will begin with investment dollars starting January 1, 2027.

Low Income Housing and New Markets Tax Credit

OBBBA makes permanent the increase in the Low Income Housing Tax Credit that was available under the TCJA, but decreases the ceiling amount to 12% (instead of 12.5%), and permanently extends the New Markets Tax Credit (“NMTC”) program allowing the Community Development Financial Institutions Fund to allocate \$5 billion of NMTCs annually. These provisions are effective for tax years beginning after 2025.

REITs: TRS Value Limitation

The OBBBA increases the permissible percentage of a REIT’s assets that may comprise stock or securities of one or more TRSs from 20% to 25%. The provision is effective for tax years beginning after 2025.

Other changes in the bill that may be relevant to real estate investors include:

- Deduction for domestic research and experimental expenditures that were previously capitalized under §174.
- An increase in the excise tax on certain colleges and universities with a maximum tax rate of 8%.
- A reduction to the scheduled increase in the BEAT Tax rate from 12.5% to 10.5% for tax years beginning after 2025.
- Phaseouts of certain clean energy tax credits.
- Aggregation rules for certain excessive remuneration paid to specific covered employees under §162(m).



The latest on artificial intelligence (AI)

AI can enable real estate firms to process, generate, and optimize information, media, and data. This allows organizations to modify workflows, streamline operations, support decision-making, and improve tenant experiences, which can increase efficiency.

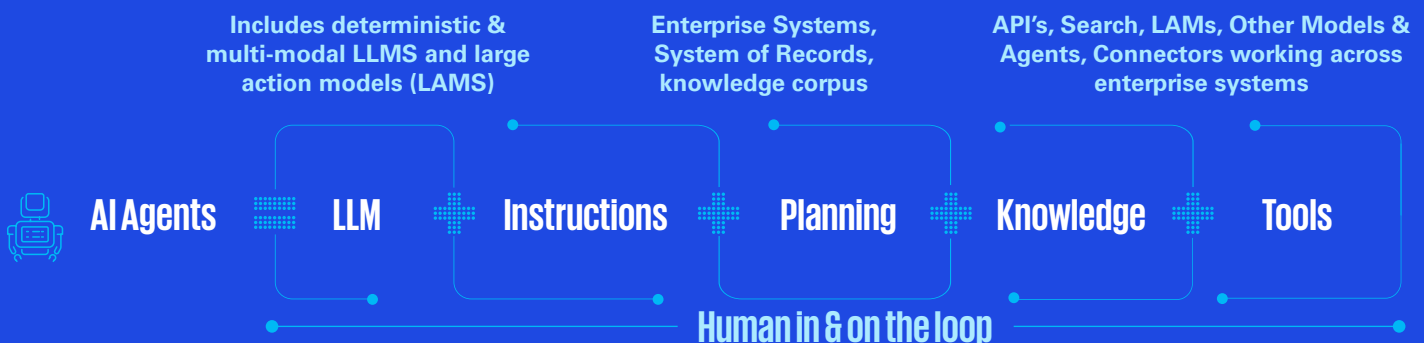
Some companies are beginning with basic generative artificial intelligence (GenAI) solutions for operational efficiencies and labor responsiveness.

As they continue to explore the game-changing capabilities of GenAI across their organizations, a new and even more powerful AI-technology has emerged: agentic AI.

Do you really know what an AI agent is?

Use of the term AI agent has exploded recently, and literally everyone is talking about them. It has gotten to the point that almost everything seems to be an agent of some kind. And that's just not true. Before you can begin to realize the incredible potential inherent in this quickly evolving new technology, you really need to understand what an agent actually is.

- AI agents are digital tools that fulfill organizational goals by taking meaningful, independent action. They accomplish this by blending advanced reasoning from LLMs with planning, orchestration, knowledge, data mining, curated tools, and careful governance.
- Agents make real-time decisions, adapt to new situations, and earn from their interactions and feedback.
- AI agents can ingest both structured and unstructured data.
- Potential real-world applications are mind-boggling. They range from basic task-oriented agents that can extract and compare data against standards, to end-to-end automation agents that could disrupt entire organizational value chains.



Agents are wired for change

Once a process has been automated by a swarm of agents, it also becomes easier and faster to adopt this workflow to ever-changing circumstances over time. The agents are trained and motivated to deliver specific outcomes but don't need detailed instructions on how to proceed or to take time away from delivery to get trained. In addition, they are not threatened by change management. The agentic workflow can iterate and accommodate experimentation faster to get to an optimal outcome within the guardrails of their instructions. This can be a critical advantage in, for example, financial services, where month-end close agents identify anomalies and prepare journal entries, reducing close cycles. At the same time, vouching agents automatically cross-reference invoices against contracts, purchase orders, and receipts, flagging discrepancies without manual review. If reporting policies, organizational structure, or lists of customers and suppliers change, the agentic system automatically adjusts the end-to-end process.

Agents convert knowledge into action

Although GenAI can significantly enhance productivity, the potential value from agentic AI can be much greater due to its ability to convert knowledge into coordinated action. As organizations deploy multiple agents, they need to feed them the right knowledge to drive the most effective outcomes. This requires systematically capturing and structuring the tacit expertise that typically resides only in employees' minds, making it available for the agents' use. For example, in retail store performance audits, audit agents continuously monitor store operations data, customer feedback, and store sales, flagging compliance issues and performance anomalies across locations. This occurs while agents automatically generate corrective action recommendations for regional managers.



The spectrum of agents is evolving to meet critical needs

82% of leaders believe AI agents will become valued contributors. That means they need onboarding, oversight, and performance reviews—just like human employees²⁰. Determining where to use specific agent types can be complex. KPMG has developed a structured classification system called the KPMG TACO Framework™ —Taskers, Automators, Collaborators, and Orchestrators—that helps organizations make sense of this evolving landscape and determine how best to leverage agentic AI.

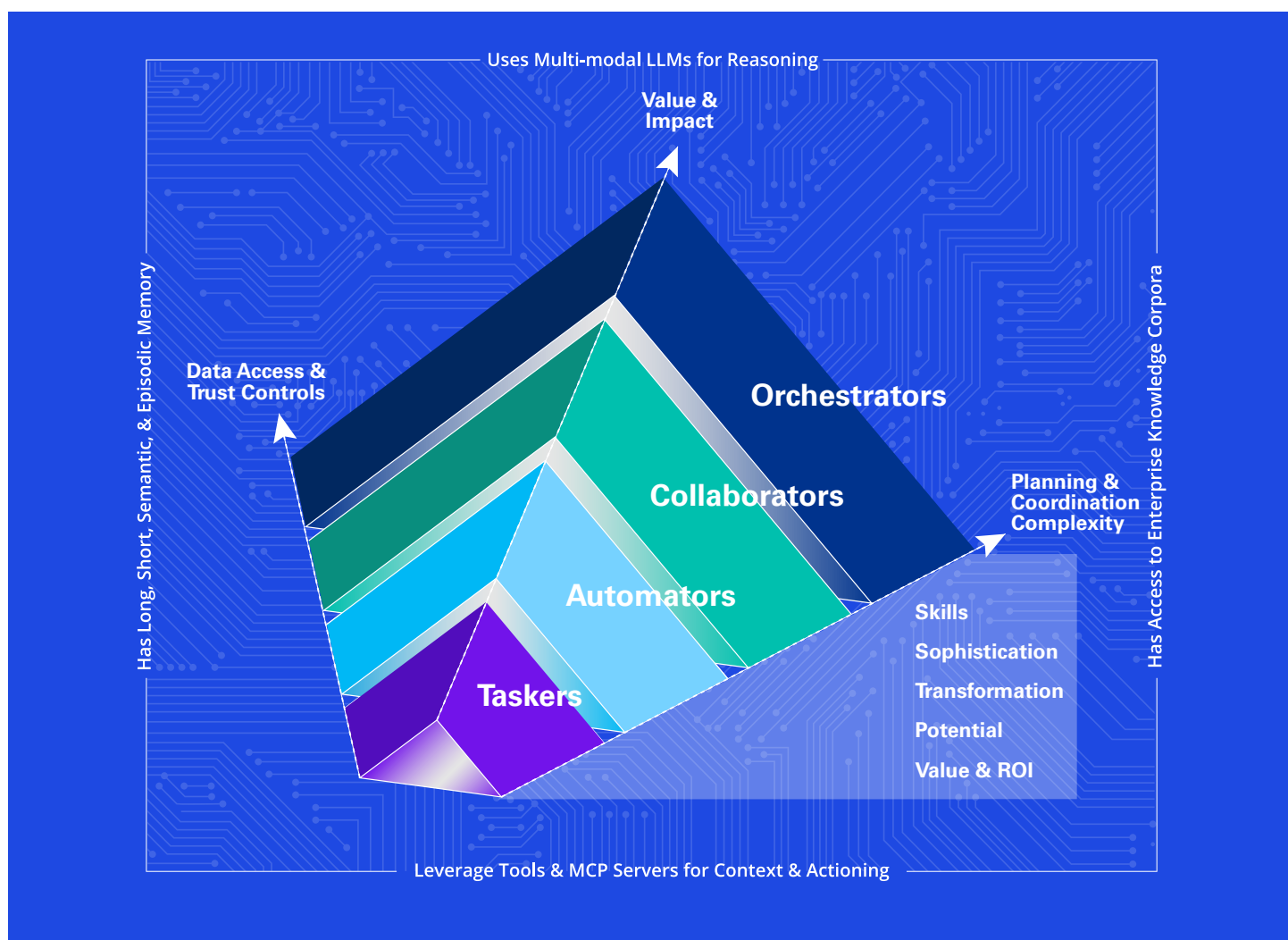
Across categories, there is consistency in core computational components, e.g., foundation and reasoning models including LLMs, knowledge representation systems, contextual processing, memory architectures, and tool integration frameworks including model context protocol (MCP). However, key

distinctions emerge in terms of the increasing complexity of goals these agents can fulfill and the corresponding planning/orchestration capabilities they can execute.

This progressive framework provides organizations with a methodical approach to matching their business requirements with the appropriate level of agent sophistication. As types and complexity of agents are evolving rapidly, organizations should also prepare for how agents will collaborate and communicate with each other, an eventuality around which industry leaders are already aligning. Finally, having a centralized "AI factory" where new agentic capabilities can be conceived and developed will be critical, particularly for organizations that want to build their own customized agents instead of buying off-the-shelf products.

Click to learn more about the [KPMG TACO Framework™](#).

In the charts below, we provide more information on the framework and use cases specific to real estate.



Use cases in real estate



Investments/Acquisitions/Dispositions

Tasker	Preparation of initial drafts of pitch decks
Automator	Assisting with underwriting of investment opportunities
Collaborator	Presentations to investment committee
Collaborator	Assisting in negotiation of purchase and sale agreements and lease agreements



Asset Management/Property Operations

Tasker	Recommendations around repair projects
Automator	Budget and capex approvals and or analysis
Collaborator/Orchestrator	Developing business plans (e.g., recommendations on hold/sell decisions for investments)
Collaborator/Orchestrator	Assisting with allocations of capital across asset classes (e.g., diversified REITs) and suggestions to adjust strategy based on market trends
Tasker	Tracking of key performance Indicators (KPIs) IE Occupance metrics, NOI, etc.
Automator	Analyze leasing rates across portfolio against market rates
Automator	Tracking of fund level performance
Automator	Review property management reports (identifying positive and negative changes and identifying potential causes)



Risk/Compliance

Tasker	Assisting with compliance with operational standards
Collaborator	Developing risk mitigation strategies (e.g., assessing market and credit risk or identifying leases/tenants at risk)
Automator	Regulatory risk monitoring and gap analysis
Collaborator	Policy gap analysis, scanning and interpreting new regulatory texts, then mapping new requirements against an organization's existing controls and policies to identify gaps

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How KPMG can help

In an increasingly complex time, you need professionals who can help you address critical issues, whenever and wherever they arise. The KPMG network of partners and professionals can help you sort through this complexity. Together, we can successfully navigate market opportunities and complexities, from Tax and Regulatory matters, to AI adoption and capturing the substantial value it presents to your business.

Visit the below links for our latest insights and observations.



Tax Insights

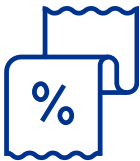
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Be sure to also visit the KPMG [Policy in Motion](#) portal.



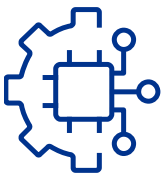
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We invite you to contact any of the professionals listed below to discuss the impact of the insights presented to your business.

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- ²⁰ KPMG Q2 2025 Pulse Survey

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