IRC INTERNATIONAL REALTY

Investing in Income-Producing U.S. Commercial Real Estate

Investor memorandum for individuals tax-resident in Germany | November 2026

Why income-producing U.S. commercial real estate? For German investors, the U.S. market can offer a combination that is difficult to replicate at home: higher current cap rates in many sectors, long contractual rent streams, NNN lease structures that can reduce landlord operating exposure, a deep and transparent transaction market, U.S.-dollar diversification, inflation protection through contractual rent increases, and tax-efficient cash flow through depreciation. Office, shopping center, retail, logistics/warehouse and single-tenant assets allow investors to select the balance of diversification, income stability and growth that best fits their objectives.

1 | Attractive Current Income Yields

After the repricing of U.S. commercial real estate, going-in capitalization rates are again meaningfully above the levels seen during the ultra-low-interest-rate period. For German investors, the comparison is particularly relevant because selected U.S. sectors currently offer a material yield premium over prime German property.

PROPERTY TYPE	U.S. BENCHMARK	GERMANY BENCHMARK	INVESTOR PERSPECTIVE
Office	7.4%	4.59%	Higher U.S. yield; quality and leasing risk vary widely
Industrial / logistics	5.1%	4.5%	Durable logistics demand; relatively tight yield spread
Strip / neighborhood retail	6.3%	4.9%	Necessity-based retail can offer a meaningful income premium
Single-tenant / net lease	7.1%	4.6%-6.0%*	Long leases and NNN structures can support predictable cash flow

Sources: Colliers Q3 2026 U.S. Capital Markets Snapshot (core cap rates); net lease: Green Street, Q3 2026, as cited by CBRE Investment Management; Germany: JLL Investment Market Overview Q3 2026 (office, seven-city average), CBRE Q3 2026 (logistics, retail parks, food markets, shopping centers). *German figures shown for food markets (4.6%) and prime shopping centers (6.0%). U.S. and German benchmarks are not perfectly comparable: U.S. figures are core cap rates, German figures are prime yields.

These figures are averages. For an individual property, the yield depends heavily on location, tenant credit, remaining lease term and building age. The office average of 7.4% is high partly because many older office buildings in major cities struggle with high vacancy; well-leased, modern properties trade at noticeably lower yields. Logistics is the opposite case: investor demand has been strong for years, which keeps yields low.

Why the U.S. can complement a German portfolio

- **Yield premium:** Depending on sector, location and lease quality, U.S. commercial assets can provide approximately 60 to 250+ basis points of additional going-in yield versus selected German prime benchmarks.
- **Contractual income:** Long-term leases, especially single-tenant and triple-net (NNN) leases, can shift property taxes, insurance and maintenance responsibilities to the tenant.
- **USD diversification:** U.S. property adds real-asset exposure in U.S. dollars and reduces reliance on the euro and the German economic cycle.
- **Large and transparent market:** The U.S. offers broad sector choice, deep transaction markets and specialized financing, brokerage and property-management infrastructure.

2 | Tax-Efficient Cash Flow in the United States

For a German-resident individual investing in U.S. rental real estate, economic cash flow can be substantially higher than U.S. taxable income. The central reason is depreciation: nonresidential real property is generally depreciated over 39 years under U.S. federal tax rules, while qualifying shorter-lived components may be depreciated more quickly when properly identified.

Illustrative cash-flow / taxable-income bridge

Illustrative purchase price	$2,500,000
Illustrative capitalization rate	6.5%
Annual net operating income (before depreciation and interest)	$162,500
Less: illustrative building depreciation ($2.0M / 39 years)	($51,300)
Illustrative income before interest and other tax adjustments	$111,200

The example is simplified. Actual depreciation depends on land allocation, acquisition costs, improvements, cost segregation, entity structure and applicable tax rules. Interest and other deductions may further reduce taxable income, subject to limitations.

U.S. tax mechanics for a German individual

- **Section 871(d) election:** A nonresident alien may elect to treat qualifying U.S. real-property income as effectively connected income (ECI). This permits deductions attributable to the property and taxes net income at graduated U.S. rates rather than the general 30% gross-basis regime.
- **Property-specific deductions:** Depreciation, interest (subject to limitations), management fees and other qualifying expenses can reduce U.S. taxable income even when the property produces positive cash flow.
- **No general U.S. standard deduction:** A nonresident alien generally cannot claim the U.S. individual standard deduction. The tax advantage should therefore be presented as depreciation and property-related deductions, not a personal standard deduction.

3 | German Treatment: Treaty Exemption + Progressionsvorbehalt

Under Article 6 of the U.S.-Germany income-tax treaty, income from U.S. immovable property may be taxed in the United States. Under Article 23, qualifying U.S.-source real-estate income of a German resident is generally excluded from the German income-tax base. Germany may nevertheless take the exempt income into account when determining the tax rate applicable to the investor's other German taxable income: the Progressionsvorbehalt.

- **Practical effect:** The U.S. real-estate income is generally not subjected to a second ordinary German income tax, while it can increase the marginal tax rate on other German income.
- **German calculation matters:** The amount used for the Progressionsvorbehalt is determined under German tax principles; it does not automatically equal the U.S. taxable-income figure.
- **Structure before acquisition:** Entity classification, partnership withholding, U.S. estate-tax exposure, FIRPTA on disposition, state taxes and possible cost segregation should be reviewed before closing.

4 | After-Tax Return Comparison: U.S. vs. Germany

The existing $2.5 million / 6.5% cap-rate example can be extended to show how non-cash depreciation affects the investor's spendable annual cash. The comparison below is unlevered and isolates annual operating-income taxation.

Core assumptions: U.S. property located in Florida (no individual state income tax); Section 871(d) / ECI treatment; $2.0 million depreciable building basis over 39 years; 2026 federal individual tax rates; no standard deduction and no Section 199A deduction. German comparison: the same $2.5 million economic investment, translated into euros at the ECB reference rate of EUR 1 = $1.1622 on September 4, 2026 solely to apply the 2026 German tax tariff, then translated back into USD; 80% building allocation, 2% AfA, no church tax and no trade tax. All displayed German amounts are USD equivalents. Subsequent FX gains or losses are excluded from the annual operating comparison.

ANNUAL CALCULATION	U.S. PROPERTY	GERMAN PROPERTY
Purchase price / capital invested	$2,500,000	$2,500,000
NOI at 6.5% cap rate	$162,500	$162,500
Non-cash depreciation / AfA	($51,282)	($40,000)
Taxable operating income	$111,218	$122,500
Income tax	($19,290)	($38,508)
Solidarity surcharge	$0	($1,768)
Total annual income tax	($19,290)	($40,276)
Net cash after income tax	$143,210	$122,224
After-tax cash yield	5.73%	4.89%

The German tax shown above applies the 2026 income-tax tariff after translating the USD-equivalent taxable income into euros at the stated reference rate. The 2026 basic allowance is embedded in the tariff. For an investor with substantial other German income, the marginal German tax burden can be higher, making this comparison conservative for the U.S. case.

German return required to match the U.S. after-tax cash

To equal the U.S. property's approximately $143,210 annual after-tax cash on the same $2.5 million capital base, a German property must generate substantially more NOI:

GERMAN AFA ASSUMPTION	REQUIRED ANNUAL NOI	REQUIRED CAP RATE
2% AfA (base case)	$200,812	8.03%
3% AfA (qualifying case)	$184,360	7.37%

Result: under these assumptions, a 6.5% U.S. cap rate produces the same annual after-tax cash as roughly a 7.4%-8.0% German cap rate. The required German yield can be still higher if the investor's other German income places incremental rental income in the 42% or 45% marginal bracket.

Progressionsvorbehalt: important, but investor-specific

The U.S. net-cash figure above does not include the additional German tax that may arise on the investor's other German income through the Progressionsvorbehalt. The exempt U.S. real-estate income itself is generally not taxed a second time in Germany, but it can raise the tax rate applied to other German taxable income. For example, using the same ECB reference rate, $250,000 of other German taxable income plus $122,500 of foreign income for progression purposes produces an illustrative incremental German income-tax and solidarity-surcharge burden of approximately $5,544. The exact effect depends on the investor's other income, filing situation and German-law computation of the U.S. income.

Conclusion

For annual income-oriented investing, the combination of higher U.S. going-in yields and depreciation-driven tax deferral can create a significant after-tax cash-flow advantage for a German-resident investor. The comparison is intentionally conservative because it excludes possible U.S. cost-segregation benefits and assumes no German marginal-rate stacking. Exit taxation, depreciation recapture, FIRPTA, financing, entity-level taxes, estate/inheritance taxes and currency movements require separate analysis.

> Important: Illustrative annual operating-income comparison only; not U.S. or German tax or legal advice. German tax is calculated in EUR under the 2026 tariff and presented in USD equivalents using the ECB September 4, 2026 reference rate (EUR 1 = $1.1622). The German 2% AfA base case assumes an existing building within the relevant Section 7(4) EStG category; qualifying buildings may receive 3%. State taxes outside Florida may reduce the U.S. result. Individual structuring and tax advice is required before investing.

Tax authorities: IRS 2026 rate schedules and ECI guidance; German EStG Sections 7(4) and 32a; Solidarity Surcharge Act; U.S.-Germany Treaty Arts. 6/23; ECB reference rate September 4, 2026: EUR 1 = $1.1622. Amounts rounded.

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