Opportunity Zones

ECONOMIC INNOVATION GROUP / Washington, DC
The Latest on Opportunity Zones and Connecting Investors to Communities

**Catherine Lyons**  
Economic Innovation Group  
catherine (at) eig.org

**Rachel Reilly**  
Economic Innovation Group  
rachel (at) eig.org

**Alex Flachsbart**  
Opportunity Alabama  
alex (at) opportunityalabama.org

**Peter Truog**  
The Opportunity Exchange  
peter (at) theopportunityexchange.com
Opportunity Zones 101

Provides a series of incentives to unlock capital gains for investment into underserved communities across the country.

Individuals & Corporations → Opportunity Funds

Stock of a qualified opportunity zone corporation

Interest in a qualified opportunity zone partnership

Tangible property used in qualified opportunity zones

Capital Gains
Incentives Designed to Move Investment

Opportunity Zones gives investors a reason to seek good investments in places where they typically would not think to look. In doing so, it will activate new capital for economic development and businesses. The incentives provided are:

1. A temporary deferral: An investor can defer capital gains taxes until 2026 by rolling their gains directly over into an Opportunity Fund.

2. A reduction: The deferred capital gains liability is effectively reduced by 10% if the investment in the Opportunity Fund is held for 5 years and another 5% if held for 7 years.

3. An exemption: Any capital gains on subsequent investments made through an Opportunity Fund accrue tax-free as long as the investor stays invested in the fund for at least 10 years.
There will be a long tail of investment.

Period in which funds can make qualifying investments

Period in which funds can dispose of qualifying investments while preserving the 10+ year benefits

It begins!

Begin 10+ year disposal window

End of disposal window

April 2019
Opportunity Funds are the critical intermediary.

- All investments that seek to benefit from the tax advantages of the program must be made through an O-Fund.
- The O-Fund model is designed to encourage broad participation.
- The private sector is responsible for establishing O-Funds.
- Funds must self-certify to the IRS.
- Funds must invest at least 90% of their capital in qualified investments in zones and will be audited twice yearly to ensure compliance.

- O-Funds will come in many shapes and sizes:
  - Some will invest nationally, others locally.
  - Some will have many investors, others few.
  - Some will specialize in particular asset classes or geographies, others will diversify.
First round of Opportunity Zones regulations provided some clarity, but not enough for operating businesses.

The first round of proposed regulations were released by Department of the Treasury on October 19, 2018. The public had 60 days to issue comments on the draft regulations. The draft rulemaking provided much-needed clarity on several issues, including:

- Clarification on partnership rules, types of funds (LLCs), and types of gains (capital gains only) that are eligible for the benefit
- Qualified Opportunity Fund timing
- Definition of “substantially all” for an Opportunity Zone business’s tangible property as 70 percent
- Clarification that the substantial improvement test requires the doubling of original basis of the building only, not the land

We need additional clarity on these issues to ensure successful implementation of OZs:

- 50 percent gross income test
- Determination of original use, other substantially all definitions, and substantial improvement for an operating business
- Timing for Qualified Opportunity Fund investment and reinvestment

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What do we expect from the second round of guidance?

Treasury sent the second round of guidance to the Administration for regulatory review on Tuesday, March 12. We expect the proposed regulations to be published in April. We anticipate Treasury will aim to address the following issues in the second tranche of regulations:

- What types of property qualify as qualified Opportunity Zone business property
- Steps a qualified OZ Business must take to be qualified
- How Opportunity Funds can invest in business property and businesses
- Penalties for a fund’s failure to meet the 90% asset test

We expect there will be at least one more round of guidance that will address anti-abuse provisions, the decertification process, and possibly reporting requirements for Opportunity Funds.
Novogradac’s [Opportunity Zones Fund Listing](#) (pictured) now contains 87 funds seeking over $20 billion.

The [National Council of State Housing Agencies](#)’ directory contains over 100 funds.

Specialized funds are forming:
- [Rural CO Opportunity Fund](#)
- [Emergent Communities Fund](#)
- [HBCU Opportunity Fund](#)
- [Teacher’s Village Opportunity Fund](#)

States are creating their own platforms:
- [Colorado](#)
- [Maryland](#)
- [California](#)

![Table of funds](image)
The Opportunity Zone program made us take notice of this important initiative which matches our goal of finding sustainable solutions to important societal issues. Supporting efforts to build in underserved communities and supply affordably priced housing for teachers, we see as part of my family’s mission.

- Developer of Newark’s Teachers Village launches Opportunity Zone fund

Deal: Multi-City Fund Builds Homes for Teachers

- RBH, developer of Newark’s Teacher’s Village
- Mixed-use developments with workforce housing
- Replicate model throughout that nation; first investments underway in Miami and Atlanta
- Tech entrepreneurs, David and Leila Center, invested $40 million aligned with interest in improved education
- $150 million Opportunity Fund anticipated to support $700 million in development
Some of our investors are able to invest into this project and take less of a return than they typically would, because they have all these tax benefits from the Opportunity Zone. What that means is our capital stack is less stressed for dollars, so we’re able to take some of the units and [charge less for] them, and still pay back our investors.”

- Tremont project The Tappan would include apartments, first-floor bakery on Scranton Road

Deal: The Tappan - Cleveland, OH

- Local Developer, Sustainable Communities Assoc
- Mixed-use, mixed-income rental property
- Retail space for local entrepreneur
- 95 apartments; 60% affordable workforce homes
- SCA leveraged tax benefit to provide discounted rents, creating apartments affordable for those earning under $46,000.
Across the Nation

State and Local Action

- City and state OZ taskforces (MD, Pine Bluff, AR)
- State tax credits and conforming with IRC (Novogradac website for reference)
- Exemption of income taxes for QOZ businesses (WV)
- Set-aside for tax credit-financed housing and state historic tax credits (MS, MO)
- Aligning state resources and programs with OZs (MD, Washington, D.C.)
- Regulatory relief (CA)
- Locally-funded technical assistance to support community efforts (CO)
- Provision of free legal services (Washington, D.C.)

Fostering Equitable Economic Growth

- Leverage city-owned property to preserve and create affordable homes and workspace
- Create sustainable revenue streams to capitalize anti-displacement fund
- Apply existing policies: tax abatement, inclusionary zoning, right of first refusal
- Site control of land is key
  - Rapid-response land acquisition facilities
    Metro Denver Impact Facility // Golden State Acquisition Fund
Across the Nation

Creating a Prospectus

More than 25 cities from across the nation have created an Opportunity Zone Investment Prospectus to communicate their competitive advantages, trigger local partnerships and identify sound projects that are ready for public, private and civic capital. (more information)

Initiatives

- Local legal service provider as an OZ quarterback (Legal Services of Greater Miami)
- Technology platforms to connect investors and opportunities (The Opportunity Exchange, OppSites)
- Impact frameworks (OZFramework)
- Fund Manager Incubator (Kresge and Calvert Impact Capital)
- Opportunity Investment Consortium of Indiana (LISC and City of Indianapolis)
- Utah Association of Counties and Sorenson Impact Center (GOED)
- Community Exchange in Minnesota (OZ Challenge)
- Ecosystem building by third-party entities (Opportunity Alabama)
Opportunity Alabama
CREATING AN OPPORTUNITY ZONES ECOSYSTEM

ALEX FLACHSBART
How do we build an ecosystem to maximize Opportunity Zone investment in Alabama?
ACCOMPLISHMENTS TO DATE

Education
60+
Presentations

Marketplace
$200m+
In equity need on 20+ immediate projects

Promotion
42%
of AL OZs convening OZ-specific planning

Data Tracking
100+
Data points being tracked for communities + projects

1,000+
People receiving instruction

60+
Projects in pipeline ($1bn+ total)

28%
of AL OZs have “investor guide” under development

100%
of project sponsors have agreed to share data

April 2019
KEY COMMUNITY TAKEAWAYS

- Develop Project Pipeline
- Develop Local Investor Pipeline
- Develop Local OZ Marketing Strategy
- Develop Local OZ Ecosystem

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The Opportunity Exchange
We support Opportunity Zone ecosystems by:

**STREAMLINING COLLABORATION**
We bring investors, project sponsors, and economic developers together on a common platform.

**EXPANDING NETWORKS**
Our trusted national partners help elevate projects and communities to a national audience.

**QUANTIFYING IMPACT**
We place a high credence on social impact metrics and aim to help bring funding into areas that need it most.
Connecting the dots:

COMMUNITY DEVELOPERS

- Reach a national audience
- Identify and support project sponsors
- Track data & community impact

PROJECT SPONSORS

- Upload your project in minutes – not hours
- Confidently showcase on the custom-built Opportunity Zone platform

INVESTORS

- Browse listings verified by community partners
- Easily contact local organizations
- Find viable projects that meet community needs

April 2019
Community Partner Profile: OpportunityCLE

Cleveland and Cuyahoga County's robust and agile network of public, private, and philanthropic partners creates a cohesive economic development ecosystem unlike any other in the nation. Working with one of us provides access to the full spectrum of resources, including neighborhood level organizations, municipal and state governments, utility and infrastructure agencies, workforce development organizations, private developers, and key industry experts.

9 Listed Projects

1. Cleveland Rocks - Climbing Gym
   - $None
   - This project involves the renovation and revitalization of the historic Masonic Temple in downtown.
   - Development: 6 months
   - Next Steps: Business

2. Cleveland On Expanding Mobility in Opportunity Zones
   - $None
   - Deep Mobility Inc. (SMI) is working to expand its electric vehicle car share service.
   - Development: 6 months
   - Next Steps: Business

3. Cleveland On Warner Swasey
   - $50,000,000
   - The expansion includes a new facility, the Warner Swasey Center, and a technology incubator.
   - Development: 12 months
   - Next Steps: Business

www.theopportunityexchange.com/OpportunityCLE/profile
Partnerships

COMMUNITY PARTNERS

OREGON OPPORTUNITY ZONE INITIATIVE

Community Exchange
Supplementing & Intensifying Efforts to Strengthen Communities

OPPORTUNITY CLE™

OPPORTUNITY ALABAMA

SUPPORTERS

THE GOVERNANCE PROJECT

cdfa

ECONOMIC INNOVATION GROUP

THE U.S. IMPACT INVESTING ALLIANCE

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Have questions? Want to see a demo? Reach out!

Peter Truog
FOUNDER
peter@theopportunityexchange.com

CHECK US OUT AT:

🌐 www.theopportunityexchange.com

🐦 @OpptyExchange
Appendix
Select Resources for Additional Information

Our Research and Resources:

The State of Socioeconomic Need and Community Change in Opportunity Zones (December 2018)

Opportunity Zones: The Map Comes Into Focus (June 2018)

2018 Distressed Communities Index (2018)

Webinar: Opportunity Zones for Local Government - March 2019 (recording) (slides only)

Additional information can be found on our website.

External Resources:

Novogradac | Opportunity Zone Resource Center

Drexel University | Nowak Metro Finance Lab

The Governance Project | Opportunity Zones

Accelerator for America | Opportunity Zones

Internal Revenue Service | Opportunity Zones FAQ

NCSHA | Opportunity Zone Fund Directory

Council of Development Finance Agencies | Opportunity Zones

Georgetown’s Beeck Center | Opportunity Zones

Impact Framework for Investors | OZ Framework

U.S. Treasury Department | Opportunity Zone Resources

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Opportunity Zones Coalition

The Opportunity Zones Coalition is a group of organizations working together with a broad array of public and private stakeholders to ensure the timely and effective implementation of the policy.

If you are interested in learning more about the coalition, please contact info@eig.org.
Frequently Asked Questions

Q: How were Opportunity Zones designated?

A: Low-income community census tracts are the building blocks of Opportunity Zones. Generally, low-income census tracts either have poverty rates of at least 20% or median family incomes no greater than 80% of the surrounding area’s according to the 2011-2015 American Community Survey. Governors nominated up to 25% of all low-income census tracts in a state, territory, or commonwealth as Opportunity Zones.

Q: Do I need to live in an Opportunity Zone to take advantage of the tax benefits?

A: No. All you need to do is invest in a Qualified Opportunity Fund.

Q: I don’t have capital gains. Can I still invest in an Opportunity Fund?

A: Yes, but only reinvested capital gains are eligible for the tax benefits.

Q: In practice, how do I actually defer my gains and begin investing in Opportunity Zones?

A: An investor has 180 days from the point of sale of an asset to re-invest all or part of the gain from that sale into a Qualified Opportunity Fund. Whatever portion of the gain that is invested into a fund is the portion on which taxes are eligible to be deferred. In practice, the election will be made on the taxpayer’s Federal Income Tax return for that year.