

Opportunity Zones

ECONOMIC INNOVATION GROUP / Washington, DC





THE OPPORTUNITY EXCHANGE

The Latest on Opportunity Zones and Connecting Investors to Communities

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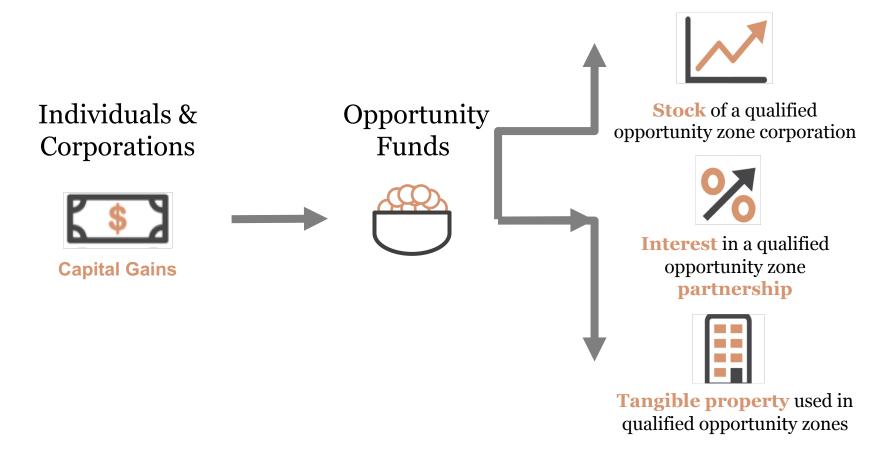
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April 2019

Opportunity Zones 101

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





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.



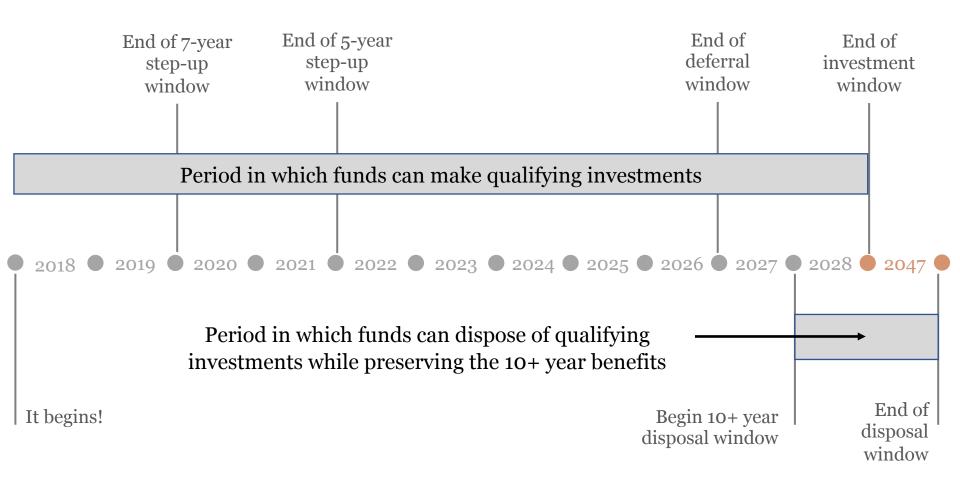
2. A **reduction**: The deferred capital gains liability is effectively reduced by 10% if the investment in the Opportunity Fund is held for 5 years and another 5% if held for 7 years.



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.





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



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.



The Opportunity Funds landscape is populating.

Novogradac's <u>Opportunity Zones Fund</u> <u>Listing</u> (pictured) now contains 87 funds seeking over \$20 billion.

The <u>National Council of State Housing</u> <u>Agencies</u>' directory contains over 100 funds.

Specialized funds are forming:

- <u>Rural CO Opportunity Fund</u>
- <u>Emergent Communities Fund</u>
- HBCU Opportunity Fund
- <u>Teacher's Village Opportunity</u> <u>Fund</u>

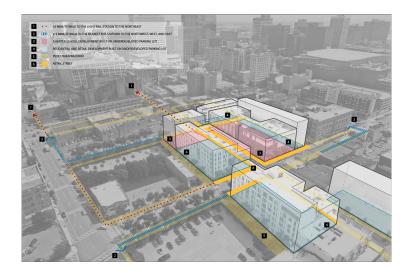
States are creating their own platforms:

- <u>Colorado</u>
- <u>Maryland</u>
- <u>California</u>

Fund Name Fund Manager Contact	Investment Footprint (Geographical Focus)	Investment Focus Area
1787 Capital Opportunity Zone Fund 1787 Capital Chris Jeter 646.283.7295 chris@1787capital.com	Mid-Atlantic and Southeast	Partnering with public agencies and officials on key redevelopment projects; Transit-Oriented Development
3LB Equities Opportunity Zone Fund 3LB Equities Adam Smith 817.406.0075 ASmith@3lbequities.com	Texas	Multi-family Acquisition and Development
Access Ventures Opportunity Fund Access Ventures Ross Baird 404.281.1254 ross@accessventures.org	National	Operating businesses
Activated Capital Opportunity Zone Fund II Activated Capital Josh Burrell, CFA 212.320.8994 investments@activatedcapital.com	Mid-west and Southeast	Substantial improvement residential, commercial and hospitality real estate.
Affordable Housing Opportunity Fund LIHTC Development Kim Miller	National	Multi-Family Development

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



"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: 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.



"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



Across the Nation

State and Local Action

- City and state OZ taskforces (MD, Pine Bluff, AR)
- State tax credits and conforming with IRC (<u>Novogradac website for reference</u>)
- Exemption of income taxes for QOZ businesses (WV)
- Set-aside for tax credit-financed housing and state historic tax credits (<u>MS</u>, <u>MO</u>)
- Aligning state resources and programs with OZs (<u>MD</u>, <u>Washington</u>, <u>D.C.</u>)
- Regulatory relief (<u>CA</u>)
- 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

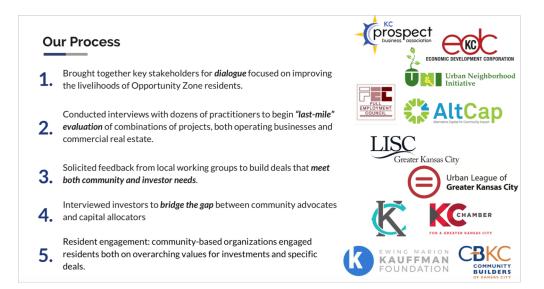
Metro Denver Impact Facility // Golden State Acquisition Fund



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 (<u>The Opportunity Exchange</u>, <u>OppSites</u>)
- Impact frameworks (<u>OZFramework</u>)
- 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 (<u>OZ Challenge</u>)
- Ecosystem building by third-party entities (Opportunity Alabama)



Opportunity Alabama



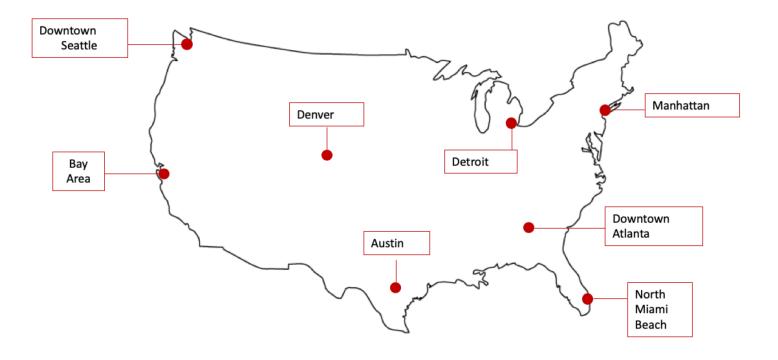


CREATING AN OPPORTUNITY ZONES ECOSYSTEM

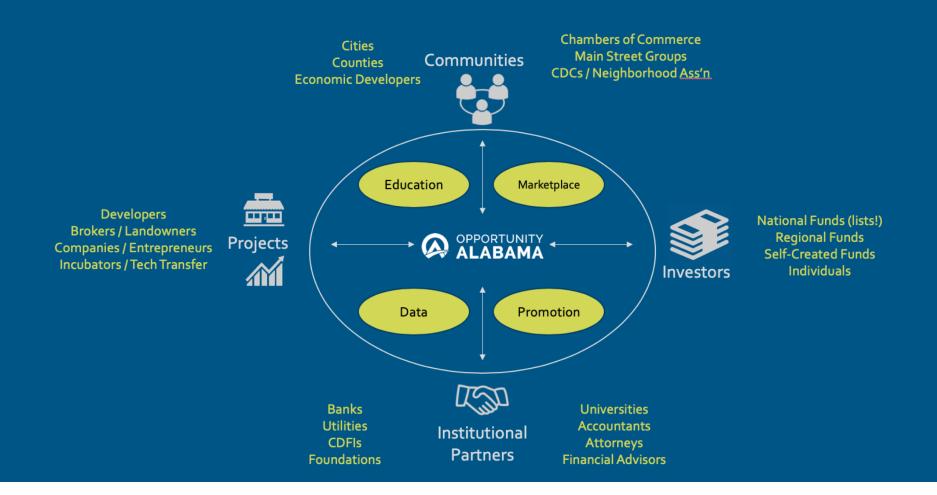
ALEX FLACHSBART

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HOW DO WE <u>BUILD AN ECOSYSTEM</u> TO MAXIMIZE OPPORTUNITY ZONE INVESTMENT IN <u>ALABAMA</u>?



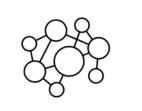
ACCOMPLISHMENTS TO DATE





Presentations

People receiving instruction Marketplace



\$200m+

In equity need on 20+ immediate projects

60+

Projects in pipeline (\$1bn+ total) Promotion



42%

of AL OZs convening OZspecific planning

28%

of AL OZs have "investor guide" under development Data Tracking

100+

Data points being tracked for communities + projects

of project sponsors have agreed to share data

KEY COMMUNITY TAKEAWAYS





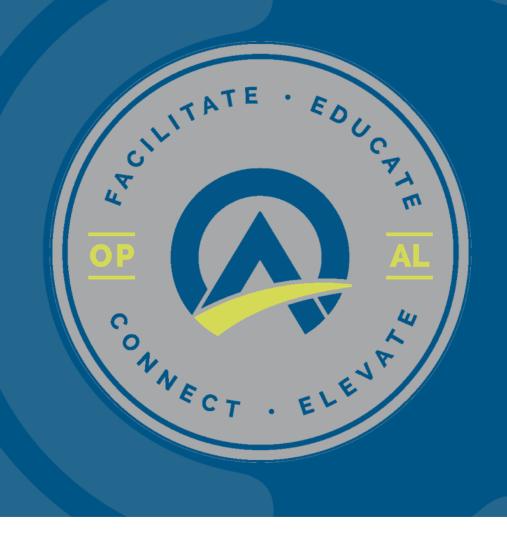






Develop Project Pipeline Develop Local Investor Pipeline Develop Local OZ Marketing Strategy Develop Local OZ Ecosystem





QUESTIONS?

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The Opportunity Exchange



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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





SPONSORS

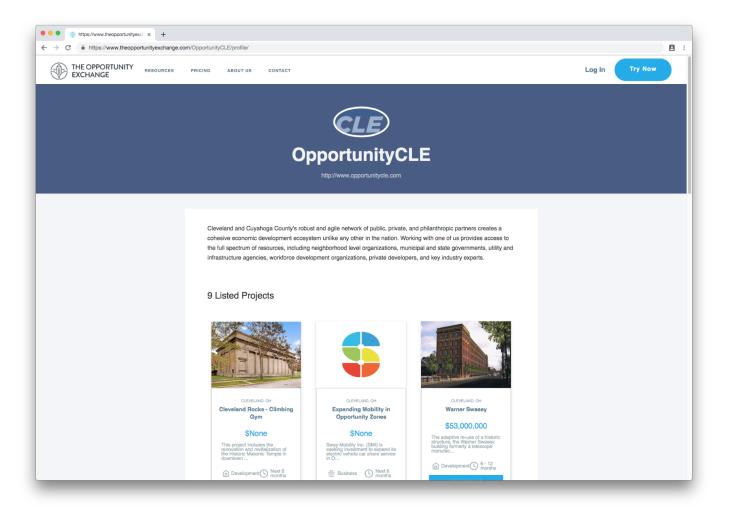
- Upload your project in minutes not hours
- Confidently showcase on the custom-built
 Opportunity Zone
 platform

INVESTORS

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



Community Partner Profile: OpportunityCLE



www.theopportunityexchange.com/OpportunityCLE/profile



Partnerships

COMMUNITY PARTNERS

OREGON OPPORTUNITY ZONE INTIATIVE







SUPPORTERS

THE GOVERNANCE PROJECT









April 2019

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



Peter Truog FOUNDER

peter@theopportunityexchange.com

CHECK US OUT AT:







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 <u>found on our website</u>.

External Resources:

Novogradac | <u>Opportunity Zone Resource Center</u> Drexel University | <u>Nowak Metro Finance Lab</u> The Governance Project | <u>Opportunity Zones</u> Accelerator for America | <u>Opportunity Zones</u> Internal Revenue Service | <u>Opportunity Zones FAQ</u> U.S. Treasury Department | <u>Opportunity Zone Resources</u> NCSHA | <u>Opportunity Zone Fund Directory</u> Council of Development Finance Agencies | <u>Opportunity Zones</u> Georgetown's Beeck Center | <u>Opportunity Zones</u> Impact Framework for Investors | <u>OZ Framework</u>



Opportunity Zones Coalition

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 <u>info@eig.org</u>.





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.

