ECONOMIC INNOVATION GROUP

Tapping Opportunity Zones Financing for Community Development Tax Credit Deals

Hosted by:

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With guest speakers:

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Ira Weinstein, CohnReznick

February 4, 2021

OZ Webinar Series

Agenda

- Opportunity Zones industry updates
- Tapping Opportunity Zones financing for community development tax credit deals
    - Federal tax credit programs for community development
    - Use cases and project examples
    - Benefits and barriers
    - Implications of recent and potential policy changes
    - Q&A

Industry Updates

- New Opportunity Zones Investment Profiles published by EIG.
  - MLK Gateway I in Washington, D.C.
  - Agile Space Industries in Durango, CO
  - 698 Prospect Phase I in Pembroke, NC

- EIG added more than 30 new entries to the OZ Activity Map since fall 2020.

- IRS Extends Relief to QOFs and Investors Affected by Pandemic
  - Further extends the 180-day deadline and the 30-month substantial improvement period extensions from December 31, 2020 until March 31, 2021.
  - Further extends the deemed reasonable cause relief from the 90 percent investment standard, as well as the disaster-related extensions of the working capital safe harbor and 12-month reinvestment period from December 31, 2020 to June 30, 2021.

Financing Community Development

- The same socioeconomic and neighborhood conditions addressed by community development tax credit programs are prevalent in Opportunity Zones.
    - High poverty rates, persistent poverty
    - High unemployment rates, limited economic mobility
    - High housing vacancy rates
    - Older housing stock, low homes values

Office of the Comptroller of the Currency (January 2021)

- Projects financed with Opportunity Zones equity and community development tax credits.

- Parramore Oaks in Orlando, FL
- MLK Gateway I in Washington, D.C.
- Ox Fibre Apartments in Frederick, MD
- Newark Arts Commons in Newark, NJ
- Renaissance Veterans Apartment in Aurora, CO
- Parkside at Quarry Yards in Atlanta, GA

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Financing Community Development

MLK Gateway I in Washington, D.C.

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Opportunity Zone Investment Profile

MLK Gateway I

Location: **Washington, DC**

Congressional District: **DC At-Large**

Opportunity Fund Name: **eMpower Qualified Opportunity Zone Fund**

Opportunity Fund Manager: **Menkiti Group - MG Capital**

Investment Date: **Q4 2019**

Project Details: **Street corner transformation creates office space and neighborhood-serving retail**

D.C.-Based Minority-Owned Businesses Work with Community Members to Create a Center of Commerce

Storefronts have sat vacant for decades at the intersection of Martin Luther King, Jr. Avenue and Good Hope Road. Soon, MLK Gateway will bring new life to a historic Main Street corridor in Washington, D.C.'s Anacostia neighborhood. It will create a center of commerce, culture and technology; foster community prosperity; and provide a vibrant mix of neighborhood-serving retail.

Historic Anacostia is one of the city's oldest and most culturally significant neighborhoods, and is colloquially referred to as a community "East of the River" due to its location east of the Anacostia River. The river has served as a psychological and physical barrier to investment, isolating East of the River communities. The result being a striking contrast in income and opportunity on either side of its banks.

The vision for MLK Gateway was crafted through years of engagement with dozens of community groups. The city of Washington, D.C. leveraged its own property through a ground lease and supported project financing to help make the vision a reality.

Project sponsors, the Menkiti Group and Enlightened, are deeply committed to the community and will deploy their expertise to provide an on-site real estate academy and incubator space for minority-owned tech startups. Enlightened will also relocate its 150-employee firm from the city's central business district to anchor MLK Gateway's office space. This is the first time in more than 40 years a large company will move East of the River.

Projected Impact

New Jobs Created / Existing Jobs Relocated:	150+
Local Tax Revenue Generated:	$375 million over 15 years

Community Stats	Census Tract: 75.03	MSA: Washington-Arlington-Alexandria, DC-VA-MD-WV
Median Family Income:	$30,551	$118,718
Poverty Rate:	47%	8%
Adults Not Working:	39%	16%
Minority Population:	95%	54%
Bachelor's Degree or Higher:	19%	51%
Housing Vacancy:	12%	5%

"My Administration never gave up on this project because we know it will help us bring jobs, housing, and new amenities to Ward 8. We thank all of our community and private sector partners for making this project a reality."
– Mayor Muriel Bowser, Washington, DC

Total Development Cost: Approximately $21,750,000

- $1.7 million pre-development loan from LISC
- $250,000 credit enhancement provided by LISC DC
- $13.5 million leveraged loan & construction loan from PNC Bank
- $700,000 DMPED Neighborhood Prosperity Fund grant
- $15 million NMTC:
  - $8 million - New Market Support Corporation, an investment company of LISC
  - $2 million - PNC Bank
  - $5 million - Other
- $2.78 million OZ investment
- $500,000 equity from LISC

[Opportunity Zone Investment Profile]

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Financing Community Development

Ox Fibre in Frederick, MD

Opportunity Zone Development Profile

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NCSHA
National Council of State Housing Agencies

Ox Fibre Apartments

Location: **Frederick, MD**

Congressional District: **Maryland 6th**

Opportunity Fund Manager: **BCC Opportunity Zone I, LLC**

QOZ Business: **400 Church Street Owner, LLC**

Investment Date: **Q3 2019**

Project Details: **Adaptive reuse of historic warehouse into 83 new affordable apartments**

New Affordable Homes Bring Life to an Historic Building in a Dynamic and Thriving Community

Ox Fibre Apartments will bring 83 new affordable apartments to Frederick, MD—a growing community located within one hour of both Washington, D.C. and Baltimore. Layering Opportunity Zones equity with state Low-Income Housing Tax Credits (Housing Credits), federal Historic Tax Credits (HTC), and additional sources of debt will allow the developer to bring a 19th century warehouse back to life while providing much-needed one-, two-, and three-bedroom homes at price points affordable to current residents.

At the county level, Area Median Income (AMI) has increased by an average of 1.9 percent annually since 2010, with a notable 9 percent spike from 2017 to 2019. However, within this Opportunity Zone, 20 percent of workers earn $15,000 or less per year, contributing to the fact that 40 percent of low-income families within the zone pay more than half of their incomes towards housing costs.

Ox Fibre Apartments will help to alleviate those cost pressures for local residents, some of whom are on waiting lists of up to 275 families for affordable homes within the same community. Once completed in Q1 2021, homes will be available to families earning 40 to 60 percent of AMI, saving low-income renters approximately $200 to $500 per month as compared to a similar apartment.

Having affordable places to live in a dynamic city like Frederick is key for low-income families. There is a bus stop on site, and the Frederick MARC train station and C. Burr Artz Public Library are located within a half mile. Residents also have close access to public schools, Hood College, Frederick County Community College, the local YMCA, government offices, Frederick Memorial Hospital, and the county's largest employer, Fort Detrick.

Projected Impact*

Full-Time Equivalent Jobs Supported (excludes construction)	38
Construction Jobs Supported	56
Total Wages Generated	$5 million
Local Fee Revenue due to Construction	$448,200
State and Local Tax Revenue due to Ongoing Operations	$539,500 annually

*The National Association of Home Builders' National Impact of Home Building model was used to project the economic impact of this investment. These estimates are calculated on a nationwide basis and actual local impact may vary.

Community Stats	Census Tract 7722	DC-VA-MD-WV MSA
Median Family Income:	$59,750	$113,810
Poverty Rate:	19%	8.3%
Adults Not Working:	25%	19%
Minority Population:	28%	54%
Bachelor's Degree or Higher:	29%	50%
Housing Vacancy:	4.2%	5.6%

- Freddie Mac debt – $10.5 million
- Housing Credit equity – $7.1 million
- Historic Tax Credit equity – $4.4 million
- Opportunity Zones equity – $830,000
- State and County debt – $3.4 million
- Deferred Developer Fee – $670,000

Total Development Cost: Approximately $27 million

[Opportunity Zone Development Profile]

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Financing Community Development

Parkside at Quarry Yards in Atlanta, GA

- Affordable housing project that will anchor a master development.
- OZ equity was combined with 4% LIHTC equity to fill the project’s financing gap.

More than 180 affordable homes that connect residents to public transit and Atlanta’s largest green space are being built because of long-term partnerships and an innovative Opportunity Zones (OZ) investment.

Background

- Located 2.5 miles northwest of downtown Atlanta.
- First mixed-income multifamily development created in the Bankhead neighborhood in over a decade.
- New construction of 182 units of family housing, consisting of 48 one-bedroom units, 96 two-bedroom units, and 38 three-bedroom units contained in two 4-story elevator-served buildings.
- Part of a master-planned, mixed-use, transit-oriented development (TOD) known as Quarry Yards.

The development will be completed in two phases and will encompass over 70 contiguous acres of land on Donald Lee Hollowell Parkway next to the Bankhead MARTA Station.

Challenge

Create Affordability, Amenities and Proximity

Quarry Yards to include:

- 57 apartments reserved for households making 50% of Area Median Income (AMI), 96 for households making 60% AMI, 19 for households making 70% AMI and 10 for those making 80% AMI.
- Rents ranging from $675 for a one-bedroom apartment to $1,542 for a three-bedroom apartment.
- Featuring computer and community rooms as well as an exercise room, wellness center and outdoor playground and picnic area for families to enjoy.
- Close to the Bankhead MARTA Station – a 15-minute ride to downtown Atlanta – and directly adjacent to the new Westside Park at Bellwood Quarry, a 280-acre park that will become Atlanta’s largest green space.

Enterprise Community Opportunity Zone Funds

Ira Weinstein

CohnReznick

Opportunity Zones and the Tax Credit Combination

Exploring Opportunities and Challenges

- Low Income Housing Tax Credit (LIHTC)
- New Markets Tax Credit (NMTC)
- Historic Rehabilitation Tax Credit (HTC)

LIHTC - A Quick Review of the Salient Points to Consider:

- Legislative history – established in 1986 – made permanent in 1993.
- Program availability – per capita state by state allocation with periodic competitive application, public and transparent.
- Capital structure – manifest as “direct” equity supported by a variety of hard and soft debt (available to investors).
- Equity market access – syndicators and direct investors (primarily financial institutions).
- Investment / compliance duration – 10 year credit flow (ratable), 15 year compliance and extended use.
- Asset class – housing with varied sub-asset focus (multifamily, seniors, etc.).
- Other things to consider – pricing, geography, policy, flight to quality, income qualification, revenue limitations, primary market, secondary market, state credits, liquidity / efficiency.
- Examples – mixed income, increased LIHTC price per credit.

NMTC - A Quick Review of the Salient Points to Consider:

- Legislative history – established in 2000 – extensions, lapses and recent progress.
- Program availability – CDFI Fund administered annual competition for allocation authority issued to CDEs (intermediary), public and transparent.
- Capital structure – manifest as debt or equity supported by a variety of hard debt at the fund or project level.
- Equity market access – consultants, brokers, and direct investors (primarily financial institutions) with lending options.
- Investment / compliance duration – 7 year credit flow (uneven), structured exit.
- Asset class – non-residential rental, including not-for-profit with real estate and operating business opportunity.
- Other things to consider – pricing, geography, policy, flight to quality, economic upside, primary and secondary market, state credits, liquidity / efficiency.
- Examples – see later slides.

Opportunity Zones and the Tax Credit Combination

Exploring Opportunities and Challenges

HTC - A Quick Review of the Salient Points to Consider:

- Legislative history – investment option established in 1976 – changes since and recently.
- Program availability – entitlement subject to state and federal approval of plans and specs (dual track), public and transparent.
- Capital structure – manifest as equity supported by a variety of other debt and equity sources.
- Equity market access – syndicators vs. brokers, and direct investors (primarily financial institutions) with lending options.
- Investment / compliance duration – 5 year compliance and now 5 year credit flow, structured exit.
- Asset class – real estate with all commercial and residential rental sub-asset classes and limitations on not-for-profit tenancy.
- Other things to consider – pricing, geography, policy, flight to quality, economic upside, primary and secondary market, state credits, liquidity / efficiency.
- Examples - see later slides.

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Example 1:

- Northeast tertiary market – city block renovation across 3 buildings in the 2018/2019 timeframe.
- Mixed use – office, retail and apartments.
- $30.6M total project cost (QOZB / QALICB).
- Master lease structure.
- QOF – $5M from 2 distinct investors with a 99.99% interest in Landlord / Owner.
- NMTC $25.5M QEI (3 CDEs) and $22.4M QLICI loan – $8M in NMTC equity and assorted loans (leverage) from a conventional bank lender, state loan program, local loan program, state and local grants, CDBG $ and bridge lending incorporated across the structure.
- Federal HTC equity investment through the CDE structure ($3.25M).
- Landlord paid for certain expenses to avoid NNN.
- Severely distressed criteria.

Opportunity Zones and the Tax Credit Combination

Exploring Opportunities and Challenges

Example 2:

- Southeastern secondary market – part of major large scale neighborhood revitalization.
- Entertainment / athletic facility venue.
- NMTC - 6 CDEs aggregate allocation with bank investor tax credit equity and "bridged" fundraising plus grants making up leverage source.
- QALICB is a newly formed support corporation to an existing not-for-profit – owns the "base-building" and associated soft costs.
- QOZB is a distinct entity owned 99% by the QOF with ownership of tangible property other that the building (indoor track, grandstands, FFE, AV, etc.).
- QOZB enters into a management agreement with QALICB to install components and manage facility (including repair and maintenance) with a third-party sub-contract.
- QALICB pays a monthly fix with fixed and variable (incentive – supports third party) components.
- Severely distressed criteria.

Opportunity Zones and the Tax Credit Combination

Exploring Opportunities and Challenges

Example 3:

- Northeast primary market – rehab of hospital building *vacant for over 10 years*.
- Mixed use – lower floors are commercial and arts oriented not-for-profits; upper floors are flexible apartment units under a "shared-housing" service model.
- NMTC (one CDE) debt / bank debt (QOF 1 investor) / FHTC / OZ (2 funds) / owner equity with the same QALICB and QOZB .
- Master lease structure.
- QALICB / QOZB is owned: 81% QOF 1 (bank-owned), 3% by QOF 2, 10% MT, 6% owner.
- FHTC is distinct bank investor through a broker/syndicator.
- *NNN issue* – coffee shop space lease to independent operator.
- *Related party issue* – MM owned the asset for many years.
- Five year FHTC.
- Severely distressed criteria.

Jason Chamlee

Model Group

modelgroup
DEVELOPMENT • CONSTRUCTION • MANAGEMENT

The Model Group

Company Overview

- Positive community transformation
- Integrated real estate company
- Ohio, Kentucky, and Indiana
- High impact affordable housing
- Neighborhood revitalization
- Partnerships
- Complex financing structures

Willkommen

Community Objectives

- German for “Welcome”
- Over-the-Rhine Neighborhood of Cincinnati
- Increase quality affordable housing
- Broader range of income brackets
- Minority-owned business opportunities
- Extend investment North of Liberty
- 14 community meetings between 2018-2020
- Vote of approval by Community Council

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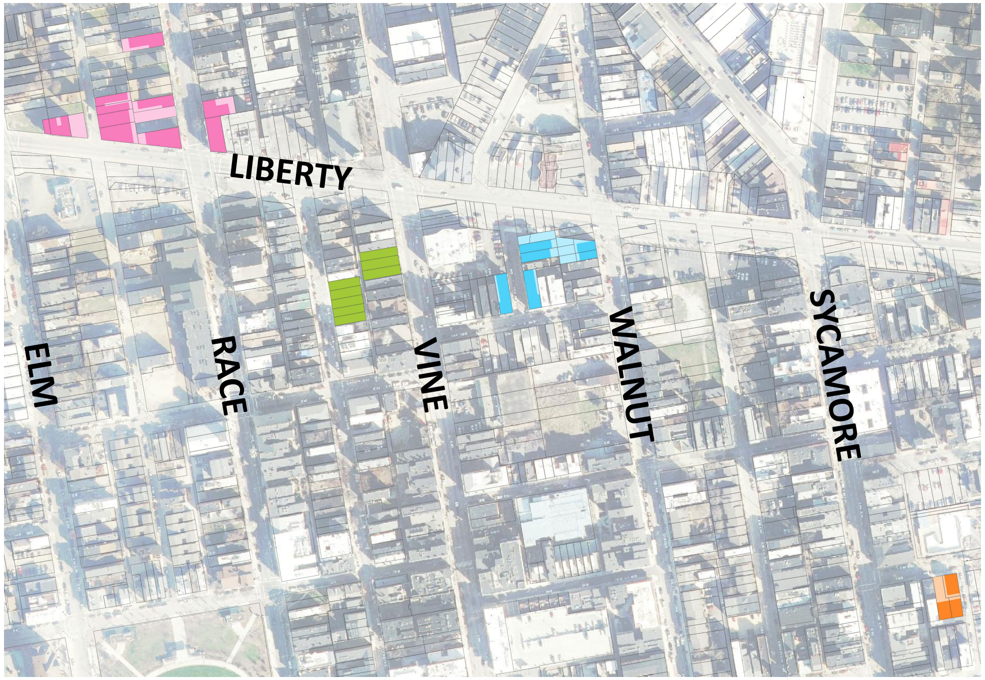
Willkommen

Project Overview

- Co-developed with 3CDC
- 20 Buildings
  - 16 historic rehab & 4 infill
- 163 mixed-income units
  - 50-120% AMI
  - 42% affordable & 58% market rate
- 20,000 SF commercial
  - Represent Initiative (8% to 48%)
- $50M Total Project Costs
  - Private debt and equity
  - LIHTC, NMTC, HTC, TIF
  - Opportunity Zone equity
- Closed July 2020
- Completed in early 2022



Willkommen

Willkommen

Financing Structure

- Four separate transactions

Willkommen Zuhause	Affordable housing	LIHTC & HTC
Willkommen Development 2	Mixed-use	NMTC, HTC, OZ, TIF, Debt & Equity
Willkommen Development 3	Residential	HTC, OZ, TIF, Debt & Equity
Willkommen Commercial	Commercial-only	NMTC, Debt & Equity

- Common Transaction Parties across the deals

Fifth Third Bank	NMTC, HTC, Senior Debt
National Equity Fund (w/ Fifth Third as Investor)	LIHTC, OZ
US Bank	NMTC, HTC
SunTrust/Truist	NMTC
Cincinnati Development Fund, RBC, Consortium	CDEs
City of Cincinnati	TIF

- Condominium structure to separate ownership
- Exit structured with Put/Call Options between Investor & Sponsor at targeted IRR

Opportunity Zones Going Forward

- Limited circumstances
  - Cannot be included in NMTC leverage
  - Cannot be used for HTC equity in Master Lease transaction
  - Investor with aligned objectives
  - Within 6 months of a capital gain
- Time-limited benefit
  - Authorized through 2026
  - 7-year deferral benefit no longer available
  - Potential legislative improvements
- Future deals
  - Sponsor Equity rather than 3rd Party
  - Pursue where it fits
  - Build off existing institutional relationships

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Opportunity Zones Considerations

- Challenge of competing program requirements
  - True debt vs. true equity
  - Compliance period vs. full term of investment
  - Related party ownership
  - Collateral position and events of default
- Benefits of Opportunity Zone equity
  - Reduced cost of capital
  - More flexible terms than debt
  - Sharing in risk
  - CRA benefit
- Community benefits
  - Long term, patient capital with community benefit objectives
  - Cost of capital and deal structure to accommodate targeted impacts
  - Benefits passed on in the form of reduced rents to support affordability goals

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Emily Cadik

The Affordable Housing Tax Credit Coalition

AFFORDABLE HOUSING TAX CREDIT COALITION

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The Low-Income Housing Tax Credit

- The Housing Credit has financed more than **3.5 million affordable homes** since inception in 1986.
- In 2019, state agencies allocated over **$1.6 billion in Housing Credits**.
  - $1.13 billion from the annual state ceiling (9 percent Credits) and $501 million to bond-financed properties (4 percent Credits).
  - Expected to produce 132,203 affordable rental homes, an increase of 5,041 units over the prior year.
- The program is very **oversubscribed**: in 2019, developers requested over $2.5 billion in credits, 2.2 times the available authority.
- Several states provide incentives for developments in **Opportunity Zones**.

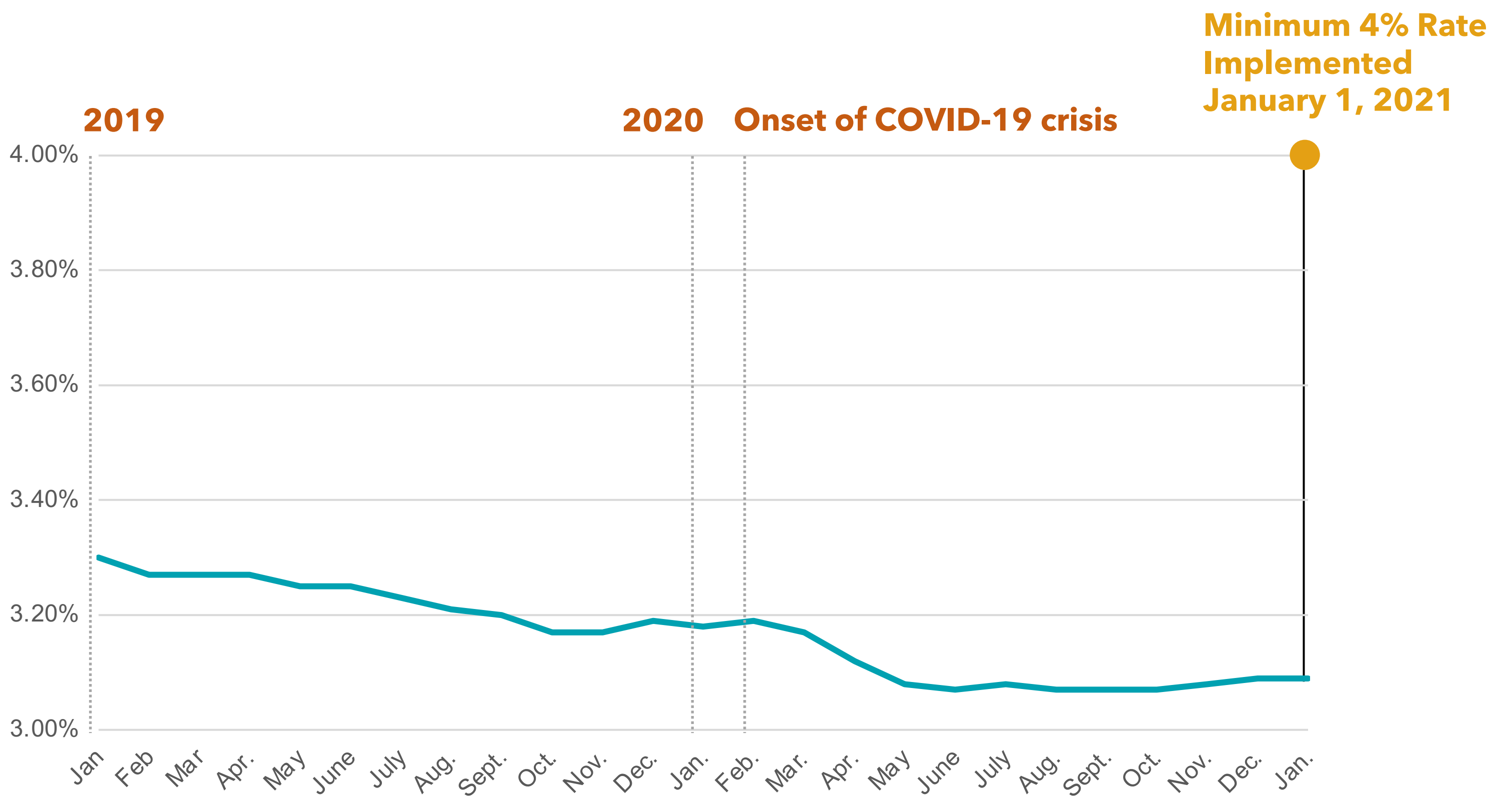
Recent Changes to the Housing Credit

- Congress set a **permanent, prospective minimum 4 percent Housing Credit** rate in 2020 year-end tax legislation, for developments allocated and placed in service after December 31, 2020.

- The minimum 4 percent Housing Credit rate is estimated to finance an additional **130,000 affordable homes** over the next decade.

- Benefits: more **equity** available for any given development, **predictability**, more **types** of developments possible, including for difficult-to-reach populations and in difficult-to-serve areas.

The History of the “4 Percent” Housing Credit Rate



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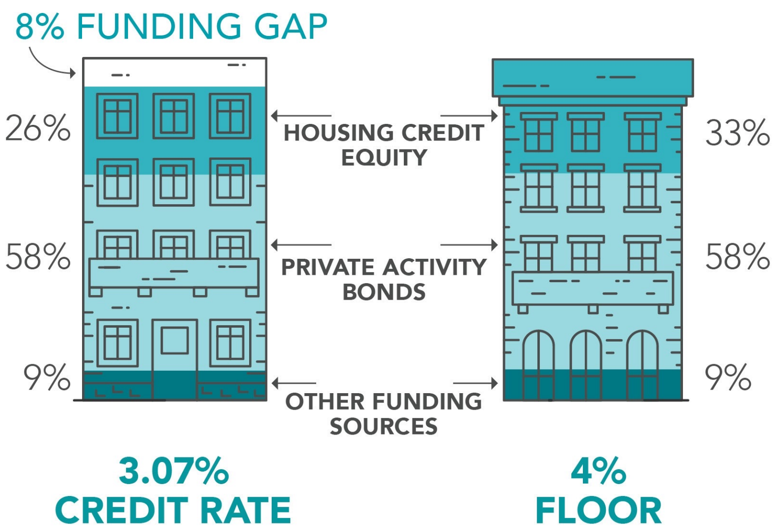
Example: Floating vs. 4 Percent Rate

EXAMPLE **HOUSING CREDIT EQUITY** CALCULATION:

	3.07% CREDIT RATE	4% FLOOR
TOTAL PROJECT COSTS	$10,833,000	$10,833,000
Housing Credit-eligible costs	$10,000,000	$10,000,000
Housing Credit rate	X 3.07%	X 4.00%
10 year flow of tax credits to the investor	X 10 YEARS	X 10 YEARS
Price paid for each dollar of Housing Credit in the investor market	X $0.90	X $0.90
HOUSING CREDIT EQUITY	$2,763,000	$3,600,000



Q & A

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