Opportunity Zones – Miami

October 10, 2018
LET'S TALK

TABLE OF CONTENTS

What are Opportunity Zones?
How do they Work?
What's Next?
What can you do?
ONE DAY every person will have an affordable home in a vibrant community, filled with promise and the opportunity for a good life.

OUR MISSION is to create opportunity for low- and moderate-income people through affordable housing in diverse, thriving communities.
What sets Enterprise apart is how we work.

We’re one of the only social enterprises in the U.S. with deep expertise in each of the three catalysts for systems change:

**Capital.**
At Enterprise, we direct public and private capital to the right places, having delivered more than $28.9 billion to low-income communities across the U.S.

**Policy.**
Enterprise is a crucial voice for America’s low-income communities with a strong presence in Washington, D.C., and city halls across the country.

**Solutions.**
We work with local partners to test and scale new solutions to some of the most pressing housing and economic problems facing low-income communities.
What are Opportunity Zones?

Opportunity Zones Background

- Enacted in tax reform (Tax Cuts and Jobs Act)
  - Investing in Opportunity Act, bipartisan support (114th, 115th Congress)
- Tax benefits to encourage individuals and corporations to invest in distressed communities – Opportunity Zones
  - IRS will oversee, not a tax program
  - No reporting requirements, state oversight, or investment mandates
- Opportunity Fund vehicle could reduce transactional friction and connect investors to overlooked but credit-worthy investment opportunities
- Equity investments in growth-stage businesses and real estate
  - Intent is to spur economic growth and job creation
What are Opportunity Zones?

**Opportunity Zone:** A low-income census tract (LIC), as determined within New Markets Tax Credits legislation, is designated as an Opportunity Zone (OZ) by the governor of the state or territory in which it is located. Designations will stay in place for 10 years.

Up to 25% of LICs in a U.S. state or territory may be designated as OZs.

Up to 5% of census tracts contiguous to LICs may be designated as OZs, if the median family income of the census tract does not exceed 125% of the median family income of the LIC to which the tract is contiguous.
How do they work?

Opportunity Zone Structure

Eligible Investments*

- Interest in a domestic partnership
- Stock in a domestic corporation
- Tangible property used in a trade or business of the Fund (substantial improvement)

Private Capital: Investment income subject to capital gains tax ~ $6 trillion market

Investment Vehicle: Opportunity Fund

*Investments must occur within Opportunity Zones - distressed census tracts (same basis as NMTC QCTs) or contiguous tracts. Ineligible investments in “sin businesses” analogous to NMTC program apply.
### Timeline for Opportunity Zone Investments

<table>
<thead>
<tr>
<th>Investment Year</th>
<th>Year 5</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2023</td>
<td>2025</td>
<td>2026</td>
<td>2028</td>
</tr>
</tbody>
</table>

**Tax on Capital Gain Invested**

- **2018**: Gain realized and invested in Opportunity Fund within 180 days*
- **2023**: 10% reduction of capital gains tax
- **2025**: 15% reduction of capital gains tax
- **2026**: All taxes due on 12/31/26. Investor pays tax on 85% of original gain
- **2028**: Any gain realized on Opportunity Fund investment is fully taxable if liquidated

* Tax is deferred until the earlier of investment liquidation (return of capital) or 12/31/26

**Tax on Opportunity Fund Investment**

- **2018**: Any gain realized on Opportunity Fund investment is fully taxable if liquidated
- **2023**: Any gain realized on Opportunity Fund investment is fully taxable if liquidated
- **2025**: Any gain realized on Opportunity Fund investment is fully taxable if liquidated
- **2026**: Any gain realized on Opportunity Fund investment is fully taxable if liquidated
- **2028**: Any gain realized on Opportunity Fund investment is tax free**

** Any appreciation on Opportunity Fund investment is tax free if held > 10 years

*Image credit: LISC and NEF*
Opportunity Funds

- **Flexible structure**
  - Private or Public fund manager
  - Wide range: national, multi-asset fund or single-asset fund
- **90 percent of assets** invested in Qualified Opportunity Zone Property located in Opportunity Zones
- **Self-certification**: do not need approval from IRS before operating
- **Deployment test** determined by the average of the percentage of qualified opportunity zone property held in the fund as measured:
  - on the last day of the first six month period of the taxable year of the fund;
  - on the last day of the taxable year of the fund
- **Co-mingled funds allowed, but only gains eligible for benefit**
- **Investors**
  - Returns will vary
  - Project will be refinanced or sold after Year 10
  - High Net Worth Individuals, Insurance Companies, Banks, Social Impact Investors
Key Points

**Investors**
- Tax incentive is most valuable for 10 year investments in appreciating assets
- Six months to invest after realizing a capital gain
- Another six months to deploy 90% of capital in Zones
- Capital is required to be an equity investment – loans from investors are not eligible for the tax incentive

**Funds**
- All capital must flow through an Opportunity Fund to be eligible for the tax incentive
- Funds are self-certified via an IRS tax form
- Fund must be established for the purpose of investing in Opportunity Zones
- 90% of fund assets must be invested in Zones to maximize the tax incentive

**Eligible Investments**
- Must be equity investments
- Real estate investments must include substantial rehabilitation – doubling basis within 30 months
- “Sin businesses” are not eligible
- Other requirements include property use in “active conduct of business” and limits on assets held in cash
Implementation

Opportunity Zones: all approved as of 6/15/2018

Guidance on Opportunity Funds:
• IRS published FAQS (April and June 2018)
• Additional regulatory guidance anticipated

Creation of / Investment in Opportunity Funds:
• Already happening

Guidance and Clarity Needed
• Advocacy on key consensus issues (examples)
• Clarity on certain definitions and terms
• Revolving nature of funds
• Time constraints
Keeping Opportunity Zone Investments Local

Local leadership can create an ecosystem that encourages investment. Examples of how cities and states are thinking about this:

**Inform the marketplace**
- Online Portal - Make data available, inventory local assets
- Site Tours and Education - Convene investors, developers, businesses, philanthropy, community stakeholders, etc.
- Letters of Interest - Investors and Fund Managers

**Incent certain types of activity**
- Leverage add-on incentives, gap financing, risk mitigation
- Create public funds, could be through partnership with local financial intermediaries to facilitate deal flow, asset manage, etc.
- Pairing investments with other sources of financing (HOME, CDBG, etc.)
- Ease certain development requirements
Opportunity Zone | Lorain County / Black River

WHEN: Thursday, July 26, 2018
WHERE: Lorain Port Authority Train Station
ADDRESS: 421 Black River Lane, Lorain, OH 44052
PRICE: $15 Members | $35 Non-Members

REGISTER NOW ➤

Join NAIOP Northern Ohio, US EPA, Lorain County, Lorain Port Authority, Lorain County Board of Commissioners and Vita Nuova for a presentation on the Lorain County / Black River Opportunity Zone.

PROGRAM HIGHLIGHTS

• Overview of 500+ acres of publicly-owned land available for development along the Black River
• A look at the new Opportunity Zones program, which will allow funds to be used for economic development purposes in exchange for Federal tax breaks
• History of Black River clean up – Don Romanca, Lorain County Community Development, Community Development Director
• Local incentives to development – Lorain County Commissioner Ted Kalo
• Environmental and financial incentives available at these and other sites – Patricia Overmeyer, Acting Deputy Office Director, EPA Office of Brownfield and Land Revitalization
• Panel Discussion with Tracey Nichols, Director of Financial Services/Project Management Consultants; Dan Borgrin, Vice President & Tax Counsel, GEX Group; Diana Rife, Revitalization Project Manager, JobsOhio; Moderated by Michael Taylor, President, Vita Nuova
• Boat tours along the Black River before and after the program
• Cocktail & appetizers networking reception
Emerging Uses for Investment

Supporting Entrepreneurs and Growing Businesses

• Start ups
• Growth stage business expansion
• Franchising

Real Estate

• Redevelopment of commercial property
• Incubator space for entrepreneurs
• Mixed-use properties
• Housing – both market-rate and affordable

Energy Infrastructure

Brownfields Redevelopment

Innovation Districts
Strategy

Objective:
Facilitate $1 billion of investment that delivers sustained economic, health and resiliency benefits to low and moderate-income communities and residents

Strategy:
• Build on our current product offerings, relationships with developers and investors, as well as our capabilities as a fund manager, to facilitate Opportunity Funds with responsible investments that deliver financial returns and community benefits
• Invest broadly in real estate with focus on affordable housing, mixed-income, mixed-use and commercial developments

Execution:
Identify quality investments though our pipeline origination network, targeting development opportunities that align with local priorities to deliver in-demand benefits to the communities we serve.
Rivermont Enterprise Emergent Communities Fund

Spurring sustainable, diverse and dynamic economic growth by revitalizing emerging main streets and supporting local entrepreneurs.

- **Rivermont Capital** is an experienced master developer and investor in the regions where the Fund will focus, enabling them to identify exceptional opportunities and address local needs
- **Enterprise Community Investment** is an expert at investing in revitalizing communities over more than 35 years – of $36+ billion total invested, they have invested $4.4 billion in Opportunity Zones
- **Beekman Advisors** is a skilled fund manager, particularly at strategic valuation, and principals have invested in emerging markets

**Investment Proposition**
- $500MM potential project pipeline in areas normally inaccessible to most investors
- Data-driven, master development approach to downtown redevelopment in smaller cities
- Extensive experience in creating public/private partnerships
- Low-cost market entry
- Tax-enhanced returns to investors
Additional Resources

CDFI Fund, Treasury - [Opportunity Zones Resource Page](#)

Economic Innovation Group - [Opportunity Zones Landing Page](#)

Council of Development Finance Agencies – [Resource Page](#)
Enterprise Resources

Enterprise Community Partners - Opportunity Zones Information Page
Letter to Treasury on Opportunity Zones Implementation
Updated Opportunity360 Maps
New Podcast: Opportunity Zones – Promises and Pitfalls
Blog Posts: tax benefits for investors, letter to Treasury, etc.
Additional Information and Reading
Sign-up for Breaking News!

Will Lambe - Wlambe@enterprisecommunity.com
Rachel Reilly - RReilly@enterprisecommunity.org
www.OpportunityZonesInfo.org
THANK YOU