

Opportunity Zones 101

TIM MROZ

THE RIGHT PLACE, INC.

A few caveats ...

- ▶ I am not a tax accountant or investment advisor ... **SEEK INVESTMENT ADVISOR GUIDANCE!**
- ▶ This is an investor incentive awarded to investors ... not one that is awarded to individual companies communities.
- ▶ All incentives pertain to the tax treatment of an investor's capital gains.
- ▶ Geared toward new businesses and projects ... not existing.
- ▶ This is an investor incentive ... not a program.
- ▶ I am not a tax accountant or investment advisor ... **SEEK INVESTMENT ADVISOR GUIDANCE!**



Opportunity Zones ...

THE TARGETS OF OPPORTUNITY INVESTMENTS.

What is an Opportunity Zone?

- ▶ **Definition:** 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 of the state or territory in which it is located. Designations will stay in place for 10 years (beginning 2018).
- ▶ Kind of like New Market Tax Credit Program ... but not.
 - ▶ Investment incentive, not a tax credit. ***SEEK INVESTMENT ADVICE!**
- ▶ The Opportunity Zones tax incentive was established by Congress in the 2017 Tax Cut and Jobs Act ... and Investing in Opportunities Act
 - ▶ Goal: to spur long-term private sector investments in low-income urban and rural communities nationwide.

How are OZs designated?

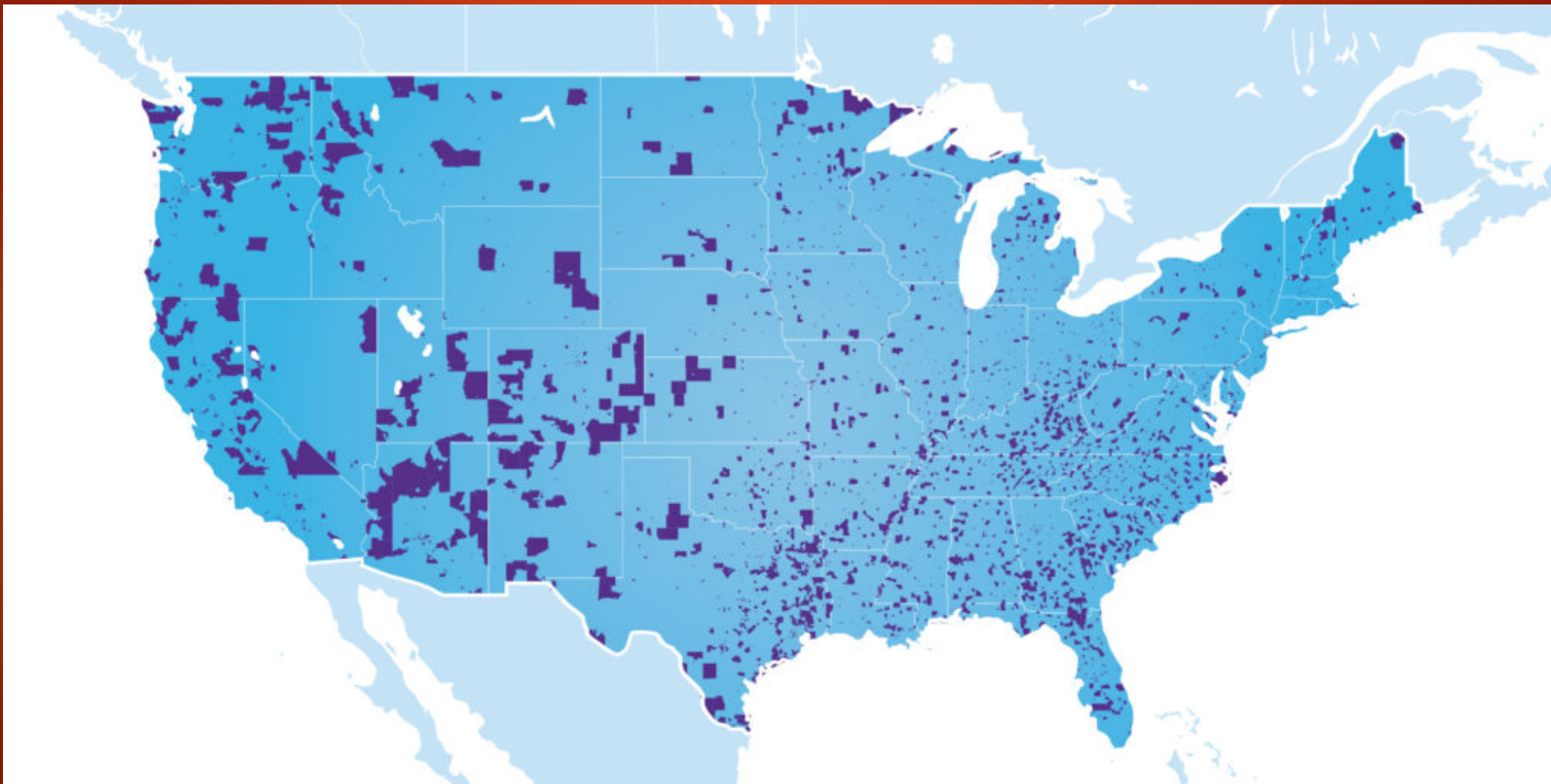
- ▶ Governors of every U.S. state and territory nominated up to 25 percent of their low-income/high-poverty census tracts as Opportunity Zones.
- ▶ Governors had 90 days from enactment (ending March 22, 2018) to submit their nominations to the U.S. Treasury Secretary in writing.
- ▶ Governors were given broad discretion when it comes to designating zones that meet the basic criteria. Congress also advised governors to give preference to areas that:
- ▶ Additional Details:
 - ▶ It is a “low-income community” under Section 45D(e) for New Markets Tax Credits,
 - ▶ or it is contiguous with a designated low-income community and the median family income does not exceed 125% of the median family income of the contiguous designated low-income community (such QOZs could be no more than 5% of the QOZs in a State)

How are OZs designated? (cont'd)

- ▶ In Michigan, OZs are managed by MSHDA.
 - ▶ https://www.michigan.gov/mshda/0,4641,7-141-5587_85624---,00.html
- ▶ There are 1,152 eligible census tracts that were eligible ... however the maximum of 25% or **288** tracts were allowed to qualify per program rules.

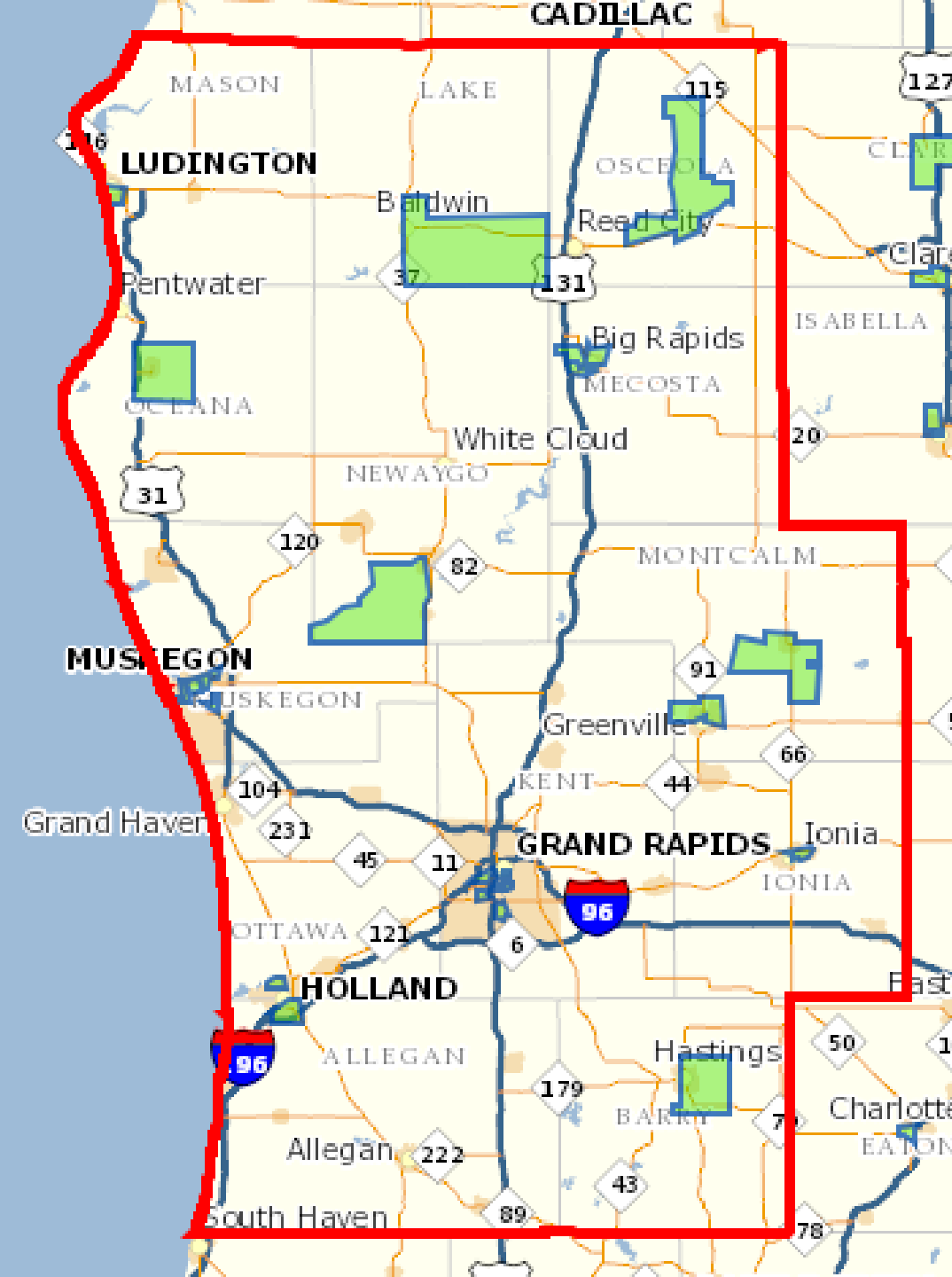
Opportunity Zones Nationwide

The Treasury has certified 8,700 Opportunity Zones, twelve percent of U.S. census tracts.



Region 4 OZs ...

- ▶ 26 OZs in Region 4.
- ▶ At least one in each county.
 - ▶ Muskegon County: 4
 - ▶ Kent County: 9
 - ▶ Montcalm: 2
 - ▶ Mecosta: 2



How do OZs work?

- ▶ The Opportunity Zones program offers investors three incentives for putting their capital to work rebuilding economically distressed communities:
 1. **A temporary deferral:** An investor can defer capital gains taxes until 2026 by putting and keeping unrealized gains in an Opportunity Fund.
 2. **A reduction:** The original amount of capital gains on which an investor has to pay deferred taxes is reduced by 10% if the Opportunity Fund investment is held for 5 years and another 5% if held for 7 years.
 3. **An exemption:** Any capital gains on investments made through the Opportunity Fund accrue tax-free as long as the investor holds them for at least 10 years.

Opportunity Zone Questions?

Opportunity Funds ...

THE VEHICLE FOR INVESTING IN OPPORTUNITY ZONES.

What are Opportunity Funds?

- ▶ Opportunity Funds (O-Funds) are investment vehicles organized as corporations or partnerships for the purpose of investing in qualified Opportunity Zone property.
- ▶ Funds must hold at least 90% of their assets in such property and will be audited twice yearly.
- ▶ All investments that seek to benefit from the tax advantages of the program must be made through an O-Fund.

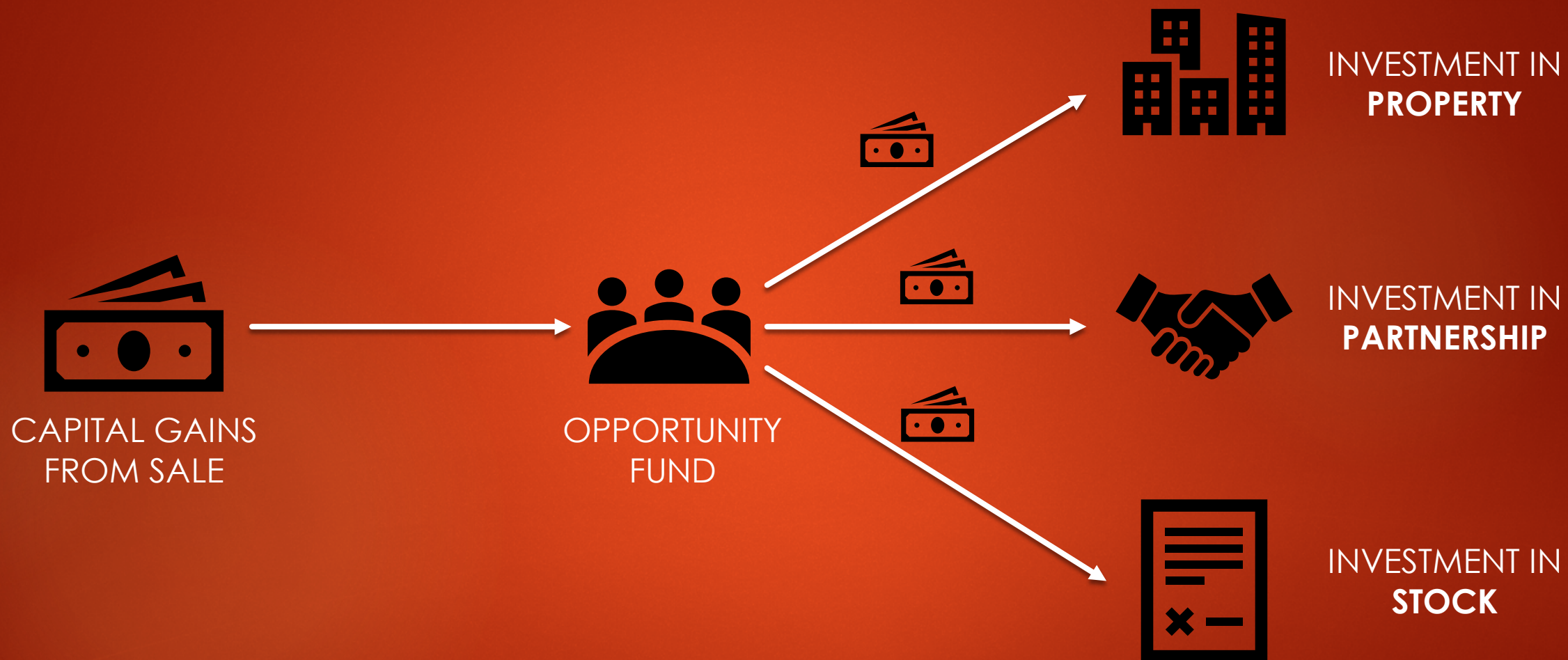
Who can invest and create O-Funds?

- ▶ Institutional investors and investment banks, impact investors, CDFIs, multifamily offices, philanthropies, venture capital partnerships, angel groups, REITs and more can invest in or establish their own Opportunity Funds.
- ▶ We expect funds to differentiate themselves along “themes”, from geographic scope to investment type to management style.
- ▶ Local communities may be able to set up their own private opportunity funds as well.

What can O-Funds invest in?

- ▶ There are three types of business property eligible for investment:
 1. Original-issue stock of a qualified opportunity zone corporation.
 2. Interest in a qualified opportunity zone partnership.
 3. Tangible property used in qualified opportunity zones.
- ▶ If the original use does not commence with the O-Fund investment, then the property must be substantially improved in order to qualify.
- ▶ In laymen's terms, that means there are a lot of investment opportunities: high-growth startups, main street businesses, real estate, manufacturing facilities, brownfield redevelopment, entrepreneurship incubators and accelerators, co-working spaces, rental housing, affordable housing, and more.
- ▶ So-called "sin" businesses are excluded.

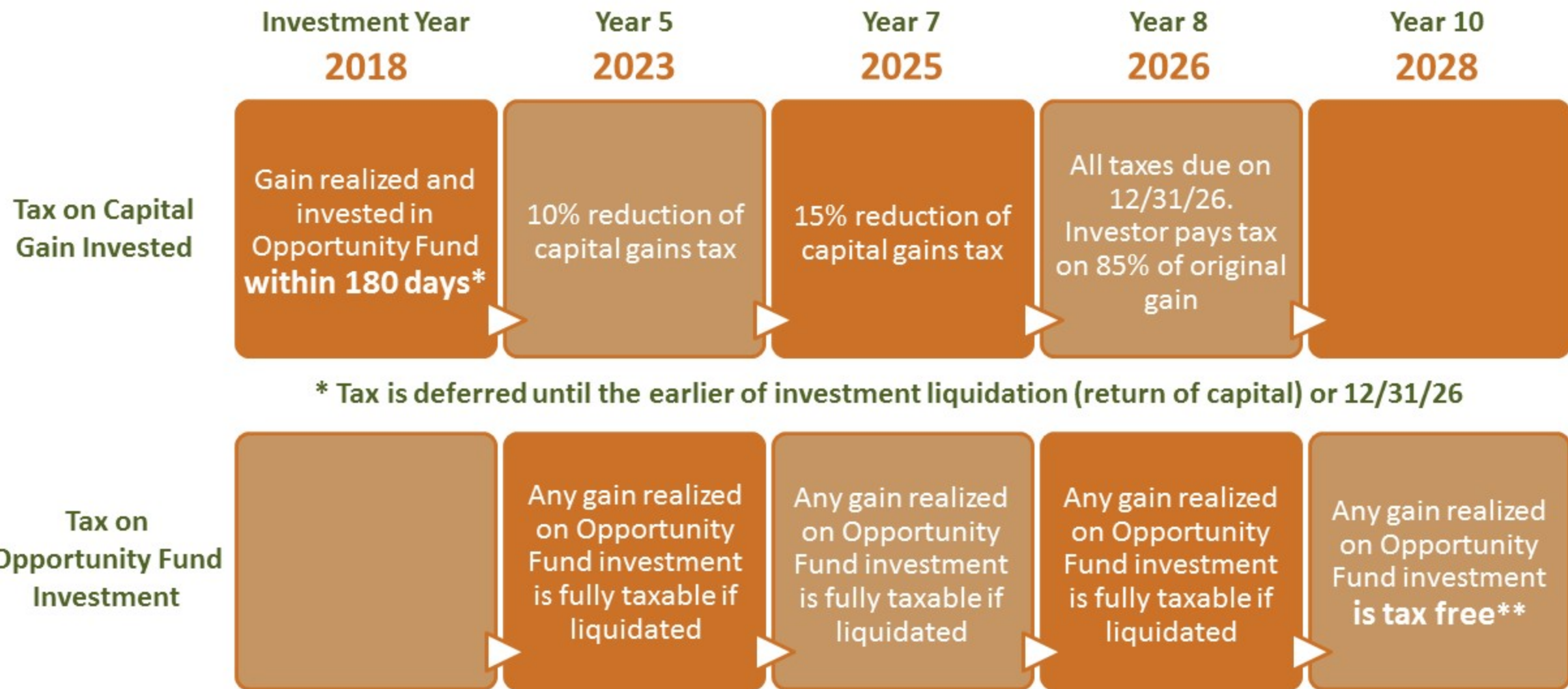
What it looks like ...



Other fund facts ...

- ▶ Opportunity fund investments can be added to the overall capital stack, without conflicting with other programs.
- ▶ Still subject to property taxes?
- ▶ Local communities may begin to apply local rules and stipulations on opportunity zone investments.
- ▶ There are hundreds of funds already in development.
 - ▶ *Strategic Opportunity Zone Fund, \$500 million, National: Multifamily, Hospitality, Retail, Office, Solar*
 - ▶ *OPZ Capital Opportunity Zone Fund, \$500 million, National: Commercial Real Estate*
 - ▶ *ODG Fund I, \$500 million, Major gateway cities: Real estate development*
 - ▶ *Miami Opportunity Fund, \$750 million, Miami, Fla.: Hospitality*
 - ▶ *Detroit Opportunity Fund, \$100 - \$150 million, Detroit: Multifamily Housing*
 - ▶ *Connect UP! Integrated Capital Fund, \$25-\$50 million, Mid-west and West Coast and Southwest: Mixed-Use Real Estate near market rate*

Timeline for Opportunity Zone Investments





Opportunity Fund Questions?



Next Steps ...

NOW WHAT?

The Approach

- ▶ Very similar to an investment/investor approach.
- ▶ “Prospectus”-based ... not “Master Plan”-based.
- ▶ Building assets ... what do you have to market?
- ▶ Assembling the “Prospectus” ... or multiples.
- ▶ Marketing the “prospectus” to opportunity funds.
- ▶ Or, creation of new, local opportunity funds.

The “Prospectus”

- ▶ A community investment prospectus is a document designed to attract capital in support of a specific place.
- ▶ A combination of a community marketing strategy, economic development analysis, and private investment memorandum.
- ▶ The community prospectus can take the form of a document and/or a website, but in either form it should include a data-driven perspective on the interplay of sectors, communities and institutions.
- ▶ It should include specific areas or projects where there is a demand for capital, and articulate both the opportunities (growth potential, additional incentives, etc.) and the risks of those projects.

Building Assets

▶ Basic Data

- ▶ Geography: location, infrastructure, natural resources, zoning, etc.
- ▶ Demographics: population, age, ethnicity, income, education levels, etc.
- ▶ Labor force: size, job growth, unemployment rate, etc.
- ▶ Local economy: historical economic growth, annual GDP, industry breakdown, etc.
- ▶ Anchor institutions: higher education, healthcare facilities, large embedded employers, etc.

▶ Investable Opportunities – specific areas or projects

- ▶ Type of project
- ▶ Size of project
- ▶ Location
- ▶ Additional incentives available
- ▶ Key contacts
- ▶ Photos/renderings
- ▶ Where to learn more

▶ Strategic Advantages

- ▶ Industry spotlight – detailed description of current key industries
- ▶ Strengths of community
 - ▶ Examples could include: anchor institutions, areas of growth, creditworthiness of city, natural resources, quality of life advantages, workforce, community growth strategy, strength of local/regional networks
- ▶ Challenges of community
 - ▶ Examples could include: lack of growth, diversity and inclusion struggles, blighted neighborhoods, investment needs, support structures needed (This is intended to be upfront about the challenges faced by a community and tell a story about how investment could help solve them)
- ▶ Economic development strategy
 - ▶ This is the key story where a community explains what they are trying to build and how additional investment could both support and benefit from the community strategy. Examples could include: building an entrepreneurial ecosystem based on educational institutes, startups, coworking spaces; attracting human capital based on anchor institutions and quality of life; capitalizing on natural resources to support energy or outdoor recreation; revitalizing downtown, etc.
- ▶ Additional incentives available
 - ▶ Examples could include Enterprise Zones, TIF, additional tax credits, public land available, grants, subsidies, etc.

Building Awareness/Marketing

- ▶ Raise awareness about the program now with local entrepreneurs and high-growth companies that may be eligible for investment from Opportunity Funds.
- ▶ Work with universities, startup incubators and accelerators, and other ecosystem partners to ready your home region to take advantage of potential opportunity fund investments.
- ▶ Work with local planners and developers to determine how this new financing model can integrate with existing or anticipated development or infrastructure plans.
- ▶ **Work actively with local, regional, and national funds to make sure they are aware of eligible investment opportunities in your region.**

Guidance for Communities.

1. **Be Proactive** – The best way to ensure that your community attracts the investment it would like, you must make those projects the most attractive and the easiest to find. If you do not take a seat at the table, investment will happen to your community instead of with your community.
2. **Urgency is Key** – To realize the full benefits of the incentive, an Opportunity Zone investment must occur before the end of 2019. While OZ investments will continue after this date, communities and projects that organize themselves quickly will have an easier time attracting capital.
3. **Think like an Investor** – The Opportunity Zone incentive will not make a bad project good, but instead will help bring a good project over the finish line. Focus on projects that will help investors realize a return, and consider what your community can do to increase that return even more.
4. **Layer Additional Programs and Incentives** – In the right situation, Opportunity Zone incentives can be used in conjunction with Enterprise Zones, New Market Tax Credits, TIFs, LIHTC, land donations, fast-tracked permitting, and many other programs. Consider what else your community can add to make a desired project them as attractive as possible to investors.

Thank you.