

Opportunity Zones

Leilah Powell, LISC San Antonio

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New Markets Support Company



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Why now?



Data from the Economic Innovation Group. Read more at eig.org/opportunityzones

More than half of America's most economically distressed communities contained both **fewer jobs and businesses in 2015 than they did in 2000.**

New business formation is near a record low. The average distressed community saw a **6 percent decline** in local businesses during the prime years of the national economic recovery.

The U.S. economy is increasingly dependent on a handful of places for growth. **Five metro areas** produced as many new businesses as the rest of the country combined from 2010 – 2014.

Opportunity Zone designation can help communities across the United States address their lack of housing, business and economic development.

Designated Opportunity Zones

All states and territories have [officially designated](#) their Opportunity Zones, as of June 14, 2018.

8,762

census tracts designated

1,858

rural census tracts designated

31%

average poverty rate

14.4%

average unemployment rate

60%

average family income in OZ
census tracts relative to area
median income (AMI)

24 million

current jobs in designated
tracts

1.6 million

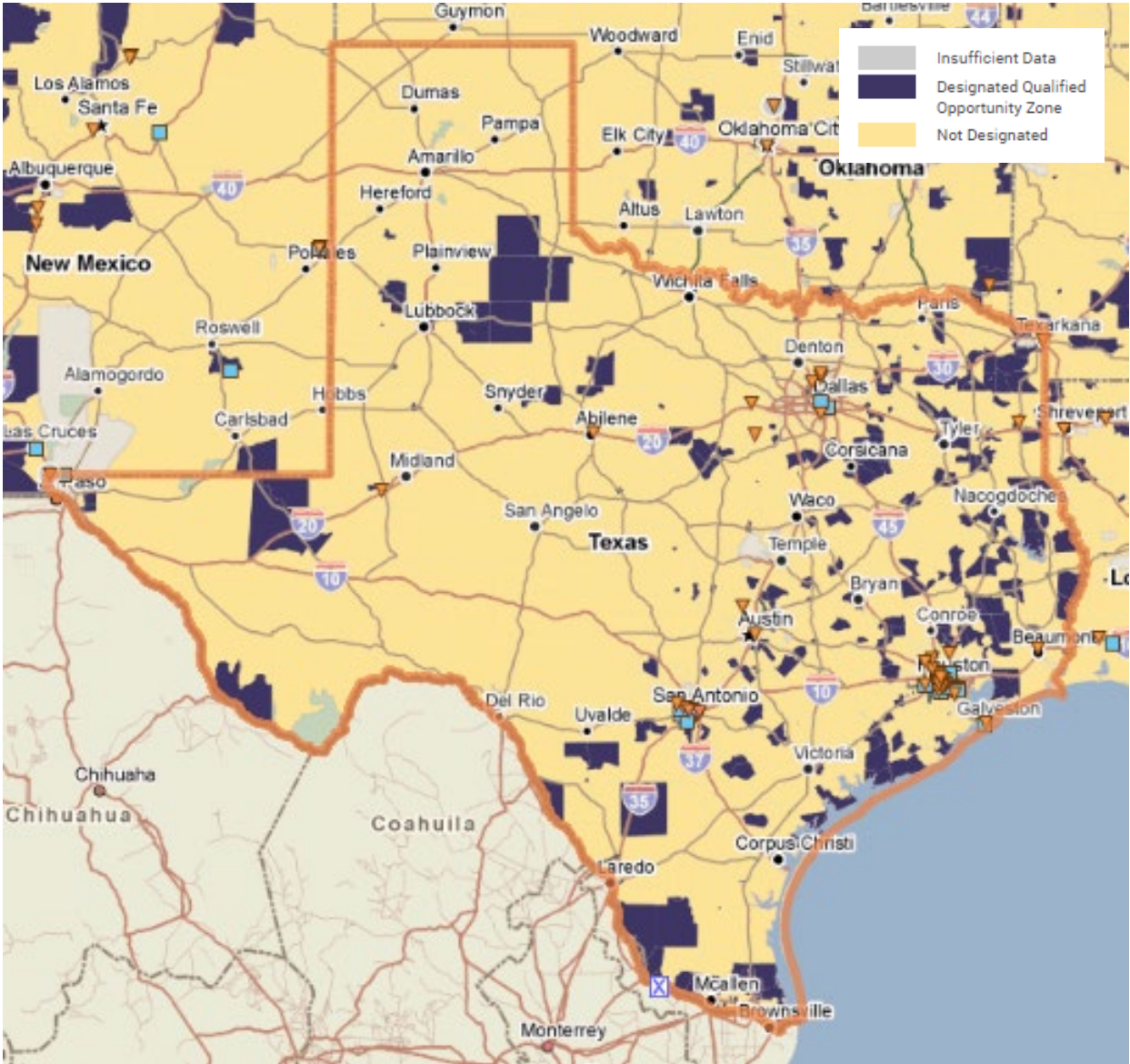
businesses in designated
tracts

Texas Designations

628

census tracts designated

Rural census tracts	187
Average poverty rate	28.8%
Average unemployment rate	11.8%
Average family income in OZ census tracts relative to area median income (AMI)	63.1%



OZ Incentives: Overview

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

Eligible Investments

Only equity investments are eligible for the Opportunity Zone tax incentive.

- 1 Business investments**
can include investments in new stock issuance for corporations and ownership interests in partnerships and LLCs.
- 2 Investments in real estate**
must include an ownership interest of new construction or assets that will be "**substantially improved**" within 30 months of acquisition by the Opportunity Fund.
- 3 New equipment and other assets**
are also eligible investments.

Affordable Housing: Examples

1 Pairing with LIHTC or the HTC

- Yield boost for tax credit investments providing housing for families at or under 60% AMI
- 10-15 year investment period
- Investors = corporate investors with capital gains to invest and tax credit appetite

2 Workforce Rental Housing

- Providing housing for families at 80 – 120% AMI
- 10 year investment period
- Investors = individuals or corporations

3 Lease-to-own Housing

- Single family or multi-family
- New construction or rehab
- Investors = social impact focus

Housing: Issues to Consider

- Integration with existing local plans and incentives
- Attracting new investors to affordable housing
- Rents at 90 – 120% AMI
 - Unless there is an investor willing to take a lower return or city or state willing to provide soft secondary financing to allow for lower rent structure
- Project risk/return – opportunistic vs. stabilized assets
- Perm debt preferred to be structured as non-recourse
- Exit issues – plan for liquidity event, continued affordability

Economic Development: Examples

1 Business infrastructure real estate funds:

- *Industrial*
- *Retail*
- *Mixed use*
- *TOD*

2 Venture capital funds:

- *Seed stage investments*
- *Series A investments*

3 Operating business private equity:

- *Businesses moving or expanding into an Opportunity Zone*
- *Equipment financing*

4 Enhancement for other federal tax credit transactions:

- *NMTCs*
- *Historic Tax Credits*

Economic Development: Issues to consider

- Benefit to existing neighborhoods, residents
- 50% of the QOZB's gross income must be derived from the active conduct of a trade or business in the Opportunity Zone
- The “substantial rehabilitation” rule requires all OZ investments to double the basis of the property that the QOF invests in:
 - New development and significant improvement of real estate assets – discourage speculation
 - Early stage business investment and established businesses relocating or expanding to Zones
 - Compliance test for business investment is doubling basis of “tangible assets”
- A substantial portion or its “intangible property” must be used in the operation of the business in the opportunity zone
- Guidance regarding ability to recycle investments within a QOF

Resident Services and Community Improvement: Examples

- 1 Community facilities:**
 - *Charter schools*
 - *FQHCs*
 - *Financial Opportunity Centers*
 - *Recreation centers*
 - *Child care centers*
- 2 Community infrastructure:**
 - *Brownfields*
 - *Streets, sidewalks, etc. w/ municipality takeout*

Technical Issues

- **90% invested rule**
 - 180 days to invest 90% of fund capital in QOZBP per statute
 - Regulations expected to provide a 30 month timeline
- **The “substantial rehabilitation” rule**
 - OZ investments to double the basis of the property that the QOF invests in within 30 months of investment
 - Original use of property is only exception to the rule
- **“Substantially all” rule**
 - QOZ business is one in which “substantially all” of the tangible property owned or leased is a QOZ business property.
- **Active conduct of business rule**
 - Do the businesses of developing and leasing real estate qualify as “the active conduct” of a business per the definition of a QOZ business?

Investor, Market and Deal Structuring Issues

Investors:

- Risk/return
- Timing issues
- 10 year hold issues
- Indemnity/guarantee requirements
- Impact focus/reporting

Deal structures / capitalization:

- Warehouse financing
- Straight equity vs. leverage structures
- JV equity vs. preferred equity
- Project debt to be structured as non-recourse to provide QOF investors with tax basis
- Structuring projects for 2026 tax payment and sale or refinancing after 10 years

Connecting to Investors

Marketing Plan Considerations:

- Product positioning
- Community buy-in
- Investor risk mitigation
- Timing

Local Impact Investor Sourcing:

- City/county government
- Community foundations
- Anchor institutions
- Chambers of commerce
- Investment clubs



LISC Activity: Opportunity Zones

924

number of Opportunity Zones
where LISC has invested in 40
year history

10.5%

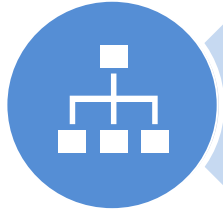
total number of census tracts
designated by the states

36%

percentage of Opportunity
Zones in LISC program markets
accounted for in LISC's Quality
of Life planning

LISC Investments in Opportunity Zones 2008 to 2017	# Deals	\$ Billions
LISC Loans and Grants	638	\$0.35
NEF Investments	178	\$1.58
NMSC Investments	45	\$0.33
TOTAL	861	\$2.26

LISC's Roles



Fund Management



Service Provider




Financing



Industry Leadership

Opportunity Zones: What's Next

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1. Treasury expected to publish regulations and additional guidance by the end of October or early November.
 2. We expect to see a number of Opportunity Zone Funds with a variety of products by the end of the year.
 3. What will be built? What is the social impact? There is much to be determined from a community development perspective.