



Get in the (Opportunity) Zone

IEDC Webinar

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QOZ Funds

- Hundreds of Funds are either created or in process
- Fewer Projects are ready for investment or seeking outside investment
 - Some developers/businesses do not want outside investors who may want to cash out in 10 years
- More supply of funds than demand for funds currently
- Funds for Business Investment are being created, waiting for more regulations prior to deployment
- 12/31/2019 Deadline reduce tax on capital gain by 15% (Drops to 10% in January 2020) may increase activity later this year



QOZ Fund Directories

- NCSHA.org – Over 100 “Multi-Project Funds” listed with links for Community Development (National Council of State Housing Agencies)
- Novogradac.com- 96 funds listed representing more than \$22 billion in community development investing capacity (includes some funds for Operating Businesses)
- Realcrowd.com- Focuses solely on investments offered by third party real estate sponsors



National QOZ Deployment

- Types of Projects Seeing Investment
 - Predominantly Real Estate
 - Large number of Housing Projects, Mixed Use
 - Mostly Large Cities on the Coasts
 - Developers seeking Areas with Opportunities for High Appreciation



Shorewood Real Estate Group will use an Opportunity Fund to invest in Queens, NYC to build a 215,000 SF mixed use project

Best Places to Invest

Many groups are coming up with rankings and why certain locations are better than others

- **Fund Rise-** Based on Historical Appreciation- West Coast; Brooklyn, NY; Atlanta; Houston
 - <https://fundrise.com/education/blog-posts/the-top-10-opportunity-zones-in-the-united-states>
- **Enterprise Community Foundation-** Opportunity360 is a tool for measuring opportunity at a neighborhood level
 - <https://www.enterprisecommunity.org/opportunity360/opportunity-zone-eligibility-tool>
- **Smart Growth America-** ranks based on smart, walkable opportunities that do not displace residents
 - <https://smartgrowthamerica.org/program/locus/opportunity-zones/>



National QOZ Deployment

- Developer Directed
- Joint Venture (Developer and QOZ Fund)
- Bank QOZ Investments with Mortgage Loans for CRA Credit



Calibre Hospitality announced an OZ Fund to invest in their \$25 million convention center hotel in Tucson, AZ



Fundrise acquired a building in the LeDroit Park area of D.C for its first OZ Project \$2.5 million



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Developer Directed

- Developer place their own Capital Gain into a QOZ Fund, solely into their own eligible real estate development projects
- These projects are quietly happening in many markets across the country
- Developers with large Capital Gains and a National Footprint are seeking areas with highest appreciation
- Many local developers believe working in their community can help the community and support other previous investments



Joint Venture

- QOZ Fund and Developer both contribute Capital gains either through a joint QOZ Fund or with separate Funds- into the same project
- No required reporting but developers and funds are beginning to mention in the press



Prudential Financial's Impact Investments announced a QOZ investment in a \$77 million Phase I of Yard 56 in Baltimore, a 20 acre Brownfield renewal & NMTC project



The Preston, Houston, Texas
Texas developer, Hines, partners with Cresset Diversified QOZ Fund to complete this project



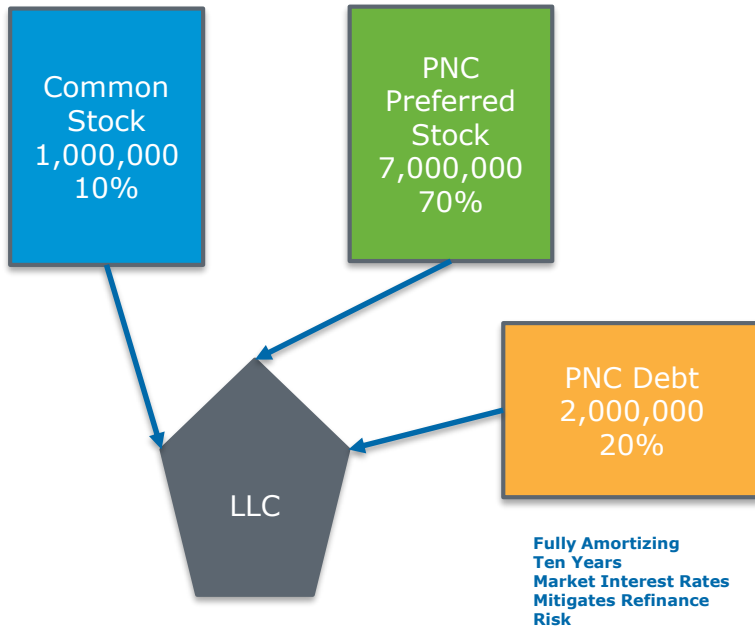
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Bank QOZ Investments

- Usually provide a QOZ Fund Investment in CRA eligible areas
- Not all Qualified Opportunity Zones are CRA eligible
- Bank may want to participate in Equity with QOZ Fund and with first Mortgage
- PNC Bank and Key Bank have completed several QOZ real estate investments in 2018 and are developing another round for 2019



BANK QOZ INVESTMENTS- PNC EXAMPLE



LLC purchases a building.
Substantially improves the
property.

Preferred Return = 3%
Interest Rate = 4.50%
Amortization = 240.0 Months
Term = 120.0 Months

•PROJECT SOURCES

Owner Equity		
Private Equity		
Grants		
Cash		
		1,000,000
Total Owner Equity	1,000,000	10%
PNC Preferred Stock	7,000,000	70%
PNC Debt	2,000,000	20%
Subordinate Debt		0%
Total Sources of Funds	10,000,000	100%

•PROJECT USES

Land	500,000
Acquisition Cost	2,500,000
Construction Costs	5,000,000
Soft Costs	1,500,000
Contingency	500,000
Total Uses of Funds	10,000,000



State QOZ Support

- **Maryland** -Legislation moving for 5% bonus for Historic Tax Credits in QOZ areas; creates a State LIHTC for OZ areas
- **Vermont**- H442 Legislation moving to allow OZ projects to qualify for a special Round of Downtown & Village Tax Credits
- **Ohio**- Gov. DeWine will include a 10% State Tax Credit in his 2020-2021 Budget
- **West Virginia**- HB2828 would exempt a new OZ Business from Corporate Net Income Tax and Personal Income Tax
- **Rhode Island**- HB 5808 creates a 10% tax credit for a \$250,000 OZ investment in Pawtucket and Central Falls, RI
- **Washington**- HB1324 incentivize OZ investment via a vested tax incentive for taxpayers who invest in a State directed OZ Fund
- **South Carolina** - HB3186 would create a 25% tax credit for companies that invest in OZ's with a cap of \$50,000 per taxpayer
- **North Carolina**- HR7242 would allow disaster areas to create State OZ areas



State QOZ Support

- **Texas-** HB 2397 would create a 25% tax credit to build or rehab a structure in a QOZ and/or purchase equipment or machinery.
- **California-** AB742 would create an office to support targeted incentives, including Opportunity Zones
- **Florida-** HB 481 would change the Florida Enterprise Act (sunset 2015) to the Florida Opportunity Act and bring back those incentives for OZ areas. Gov. DeSantis' budget proposes an expansion of eligibility for Charter Schools to QOZ areas, adding 250 communities
- **Mississippi-** Committed 12.5% of the State's LIHTC to QOZ areas
- **Kentucky-** HB203 to provide tax credits for investments in QOZ's
- **New York-** SB 3401 would eliminate the State tax incentive for capital gains when investing in a QOZ
- **Nebraska-** LB 87 would prioritize projects in OZ areas for housing trust fund, Enterprise Zones, Site and Building Development Fund



State Conformity with Federal Tax Law

Many states will provide the same treatment indirectly for their state capital gains taxes as the Federal provision for Opportunity Zones, because they use the numbers from the Federal Tax forms.

Some who have their own Capital Gains Tax forms and Calculations are working to have conformity:

- Arkansas- Law was passed to mirror federal provisions for capital gains in calculating State liability
- California- Gov. Newsom included conforming state law to federal law for capital gains in OZ areas for affordable housing & green technology investments
- Mississippi- HB 1704 to conform State capital Gains with Federal for OZ's died in committee





Services: Qualified Opportunity Zones

Add to eBriefcase

Qualified Opportunity Zones

Overview | Publications | QOZ Basics | Why QOZ | QOZ Team | QOZ Resources | SmartPaTH

The Tax Cuts and Jobs Act of 2017 introduced Opportunity Zones (OZs), a new community reinvestment tool designed to use tax incentives to promote long-term investment in qualifying urban and rural communities. Since then, the IRS has identified 8,700 Qualified Opportunity Zones (QOZs) in the United States, the U.S. Virgin Islands and Puerto Rico. This broad legislation is anticipated to benefit many stakeholders including individual taxpayers, developers, businesses, lenders, investors, fund sponsors and the impacted communities.

Thompson Hine has created a multidisciplinary team including lawyers from our Tax, Real Estate, Construction, Finance and Corporate practice groups, as well as professionals from our subsidiary, Project Management Consultants, who have considerable experience advising on incentives. This team collaborates to stay abreast of QOZ regulations and revenue rulings, prepares comments to the IRS and to Ohio officials with respect to pending state tax enhanced benefits to best promote our clients' interests, and works closely with clients to determine how best to incorporate QOZ strategies into their business plans.

This multidisciplinary team guides our clients on planning and executing investments in businesses and properties located in QOZs and on the organization of and investment in Qualified Opportunity Funds (QOFs), through which the project level investments will occur. Our team provides legal analysis of how rules and regulations apply to specific investments in projects across the country and client objectives.

Areas of Focus

- Real Estate & Construction
- Tax Structuring, Compliance & Related Tax Matters
- Finance & Incentives
- Fund Formation & Structuring
- Nonprofit Funds
- Business Startups
- Existing Businesses

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The Thompson Hine QOZ Web Site provides a great deal of resources <https://www.thompsonhine.com/services/qualified-opportunity-zones>