

Opportunity Zone Presentation

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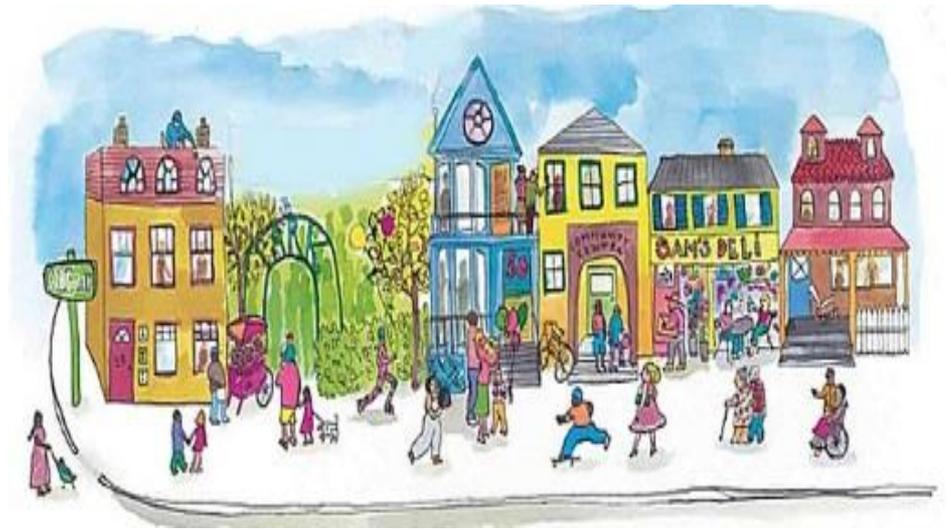
PNC Bank

**S.V.P. Greater Maryland Market Manager Community Development
Banking**

- ❑ PNC Community Development Banking Overview
- ❑ PNC 2019 Opportunity Zone Fund (OZ) Program Details
- ❑ Sample OZ Projects
- ❑ Q&A

Community Development Banking

Helping to build
vibrant
communities
through targeted
investments and
lending



Community Development Loans (focus on LMI)

LENDING: Community Economic Development Financing

- Affordable housing
- Economic development deals in low/moderate Income (LMI) census tracts or “specially designated redevelopment areas”
- Small to medium developers (LMI census tract – providing jobs, services or housing via the project)
- Nonprofit facility development; can provide lines of credit/letters of credit/bridge financing

INVESTMENTS: Equity that provides for affordable housing, economic development, revitalization or community services

- New Markets Tax Credits (NMTC)
- Low Income Housing Tax Credits (LIHTC)
- Historic Tax Credits (HTC)
- Loan Fund Investments (National, Regional, Statewide, Local and CDFI)
- Community Development Credit Union Deposits
- Low -moderate Income mortgage purchases (Habitats, community development groups, etc.)

Opportunity Zone Fund Program

- **June 2018: PNC one of the 1st entities to establish an Opportunity Zone (OZ) Fund**
- **Per current provisions, PNC has 180 days- November 30, 2019 to deploy funds into shovel-ready real-estate based projects. PNC Community Development Banking looked for projects that would qualify for Community Reinvestment Act (CRA) credit for the bank:**
 - Affordable Housing
 - Community Revitalization/Stabilization
 - Economic Development
 - Community Services



Opportunity Zone Fund Program

- **PNC will inject debt and OZ equity into viable projects with maximum 90% FMV**
 - OZ equity is limited to 70% of fair market value (FMV)
 - 10-Year Investment
 - Preferred equity
 - (3-5% annual interest; cumulative dividends; paid quarterly)
 - Debt is fully amortizing debt with 10-Year Term at market interest rates
 - Developer/Sponsor: 10% of FMV + additional costs above FMV
 - Appraisal determines FMV

Opportunity Zone Fund Program

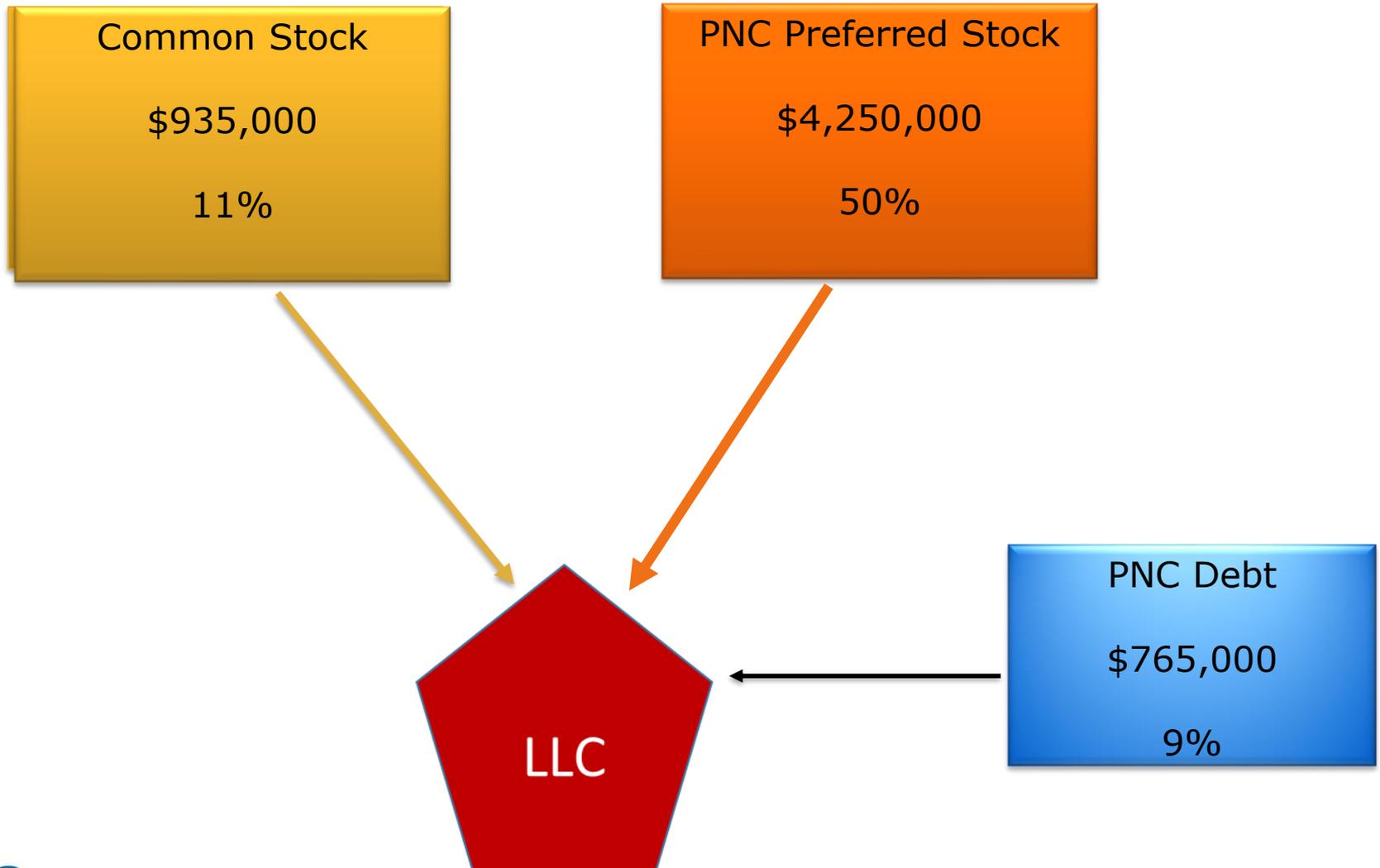
- **Debt and equity must be separate**
 - Counsel will be required to draft a legal opinion to show that the OZ equity will be recognized as “true equity”
- **As an equity investor and limited partner, PNC will receive:**
 - an assured return
 - a percentage of ownership
 - a percentage of any capital transaction

OZ Exit Clause

After a minimum 7-10 year hold, PNC will exit the partnership via either a sale of the real asset or purchase of PNC's partnership interest by the managing member



OZ Sample Structure



Sample Deal #1 – Historic Multifamily/Mixed Use

- Rehab of historic vacant industrial building into 40 loft style multifamily units and production/maker-space for entrepreneurs

Sources		Uses	
PNC OZ Investment	\$ 4,250,000	Construction-Hard Costs	\$ 5,686,673
PNC Loan	\$ 765,000	Construction-Consulting Fee	\$ 350,224
DINO Credit Equity	\$ 850,000	Soft Costs	\$ 1,263,848
HTC Equity	\$ 595,000	Operating Reserve	\$ 210,134
HTC Equity Bridge	\$ 595,000	Contingency	\$ 300,192
GP Equity Investment	\$ 935,000	Deferred Developer Fee	\$ 520,332
Deferred Developer Fee	\$ 510,000	Interest Reserve/OZ Return	\$ 168,598
	\$ 8,500,000		\$ 8,500,000

Sample Deal #2 – Multifamily New Construction

- Workforce Housing Multifamily Project: 58 Units

Sources	
PNC OZ Investment	\$ 3,530,000
PNC Loan	\$ 1,200,000
Owner's Equity	\$ 820,000
Forgivable Loan (City)	\$ 450,000
Total	\$ 6,000,000
Uses	
Acquisition	\$ 450,000
Hard Construction Costs	\$ 4,000,000
Soft Costs	\$ 544,000
Contingency	\$ 300,000
Developer Fee	\$ 600,000
Interest Reserve/OZ Return	\$ 106,000
Total	\$ 6,000,000

Challenges and Considerations

- **Guidance from Treasury still pending**
 - Expected end of April 2019
- **Legal costs**
 - Creating templates to help lower costs
 - Increasing experience with various types of transactions
- **Layering of Multiple Sources of Funds**
 - May create challenges in negotiating protection of security interests among lending and equity partners
- **Projects Must Still Meet Traditional Underwriting Guidelines**
 - i.e. Retail and office projects securing long-term leases and credit tenants
- **PNC has made no determination on future funding rounds**

