

Opportunity Zones 2.0

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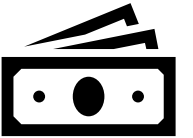
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Why do OZs matter?

- ✓ More than **\$100 billion** in direct equity capital has been invested in OZs.
- ✓ Approximately **three-fourths** of all designated tracts have seen investment.
- ✓ The rate of **housing unit growth** in OZs has more than **doubled** since designation.



What are Opportunity Zones (OZs)

Who, where, what...and why they matter

Who are OZ investors?

OZs offer capital gains tax incentives, meaning **any private entity** with a **capital gains tax** liability is a **potential** OZ investor.

✓ Individuals

✓ Institutional investors

✓ Banks

✓ Corporations

✓ Private equity

✓ Landowners

Where are OZs?

Opportunity Zones are low-income census tracts (LICs) **designated by governors.**

- ✓ Governors nominate **25%** of their eligible LICs to be OZs, where investors are entitled to certain tax benefits.
- ✓ Governors are preparing to nominate the next round of tracts with OZ designations that will **last a decade.**
- ✓ Getting zone nominations right is fundamental to long-term success.

What are the OZ tax benefits?

OZ investors are eligible for a series of capital gains tax incentives.

- ✓ A **5-year deferral** of taxes owed on a capital gain rolled over into a dedicated Opportunity Fund (OZ investment vehicle).
- ✓ A **10% step-up in basis** on that tax bill once it comes due.
 - 30% in **rural** areas.
- ✓ A **permanent exclusion** (i.e., no capital gains taxes) on any subsequent **qualifying** (i.e., economically additive) investment made in OZs and held for at least 10 years.

How do OZs work?

- ✓ OZ designations **do not** guarantee investment.
- ✓ OZs reward investing in low-income communities by **increasing the potential returns** on successful investments.
- ✓ OZs deliver **equity** capital to projects.
- ✓ The OZ incentives can be used to build new **structures**, **rehabilitate** old ones, or acquire **equipment**.

Sample OZ investments in Baltimore

Penn North



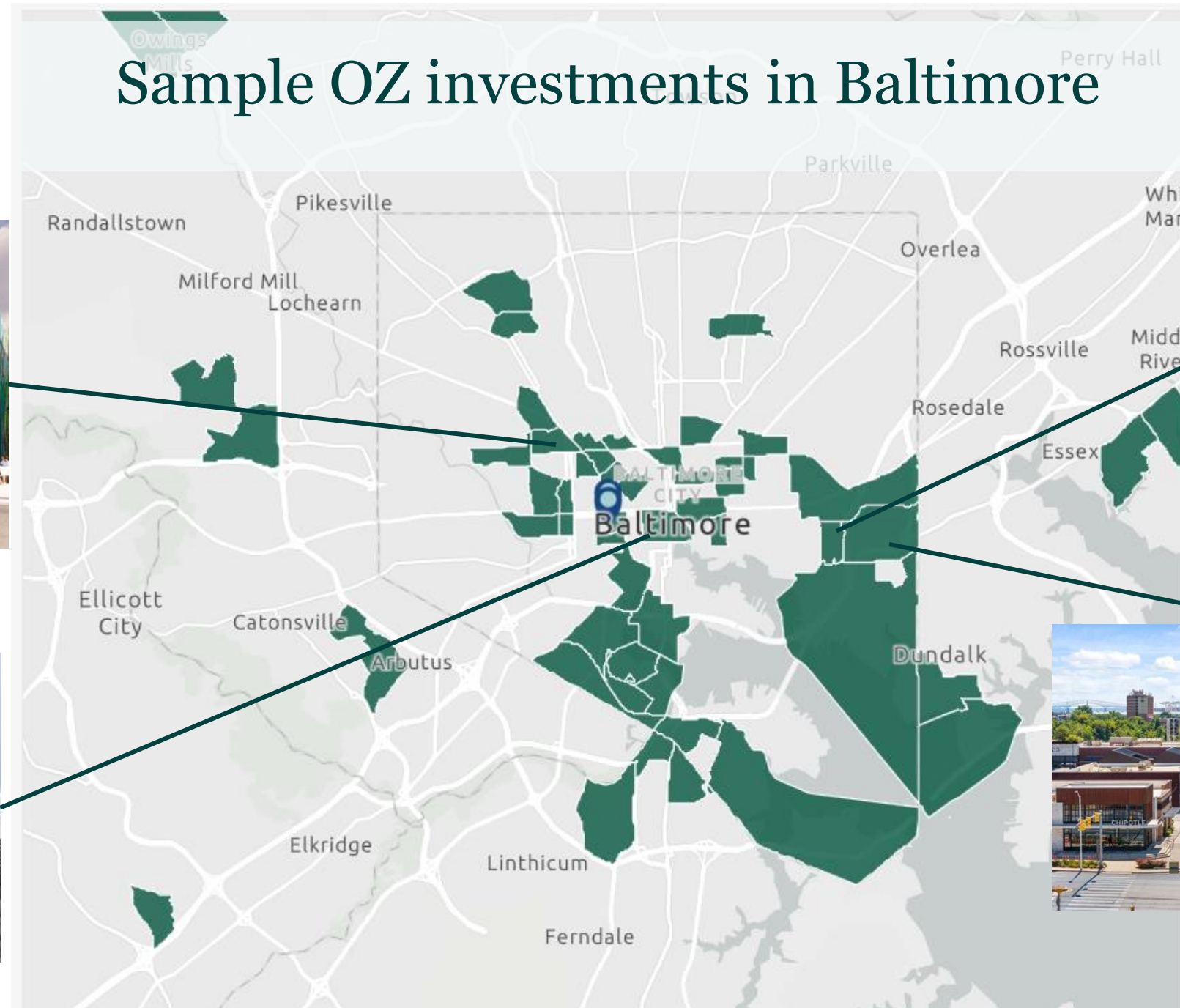
Downtown



Brewer's Hill



Yard 56



Why should communities care?

- ✓ OZs can help **close deals** and get good projects off the ground.
- ✓ OZs can drive **in-fill** development; complete the neighborhood fabric.
- ✓ OZs can help mobilize local **reinvestment** or “local-vesting” efforts.
- ✓ OZs can directly help address **housing shortages** at all price levels.
- ✓ The boosted **rural** incentives should spark **economic development**.
- ✓ OZ designation can put more power—and private capital—**behind your plans**.

Looking forward:

What state and local leaders need to know about OZs 2.0

OZ 2.0: What's new

- ✓ **Incentive structure.** Changes will result in a smoother, more predictable flow of investment.
- ✓ **Rural provisions.** Significant added tax benefits for rural investments will influence behavior.
- ✓ **Reporting and transparency.** A robust data collection and publication regime will demystify OZ investment.
- ✓ **Zone eligibility and designation.** Stricter targeting criteria will produce a narrower map.

OZ 2.0: What's new

*Remember, OZ investment is **flexible** in:*

- ***Who** can use it (anyone with a capital gain)*
- ***How much** they invest (low overhead means large or small)*
- ***What** it goes towards (as long as it's new or improved, economically additive and in a zone, it's likely qualifying).*

Wherever there's a place for equity investment, there's an opening for OZ capital.

What worked in OZs 1.0

Worked!

- New and refurbished multifamily rental housing
- Workforce housing
- Mixed-use developments
- Adaptive reuse and historical rehabilitations
- Real estate for commercial purposes
- Urban, semi-urban, and suburban in-fill development
- Large investments by large investors

Kinda worked...

- Deeply affordable housing
- Pairing with LIHTC and NMTC
- Rural industrial and commercial development*
- Small investments by small-scale investors
- CDFI/impact sector engagement*

Did not work.

- Single-family homes (especially for sale)
- Venture-style equity investment
- Direct investment into small businesses
- “Retail” investor participation
- Widespread rural investment*
- Transparency*

**expect to change or improve with 2.0*

Zone designations deep dive

A three-part test for identifying good OZ tracts

1. The community test:

Does the area genuinely need new investment to grow and diversify their economies so that residents can prosper?

2. The market test:

Does the area areas have a reasonable chance to attract private capital and put it to productive use within the policy's timelines?

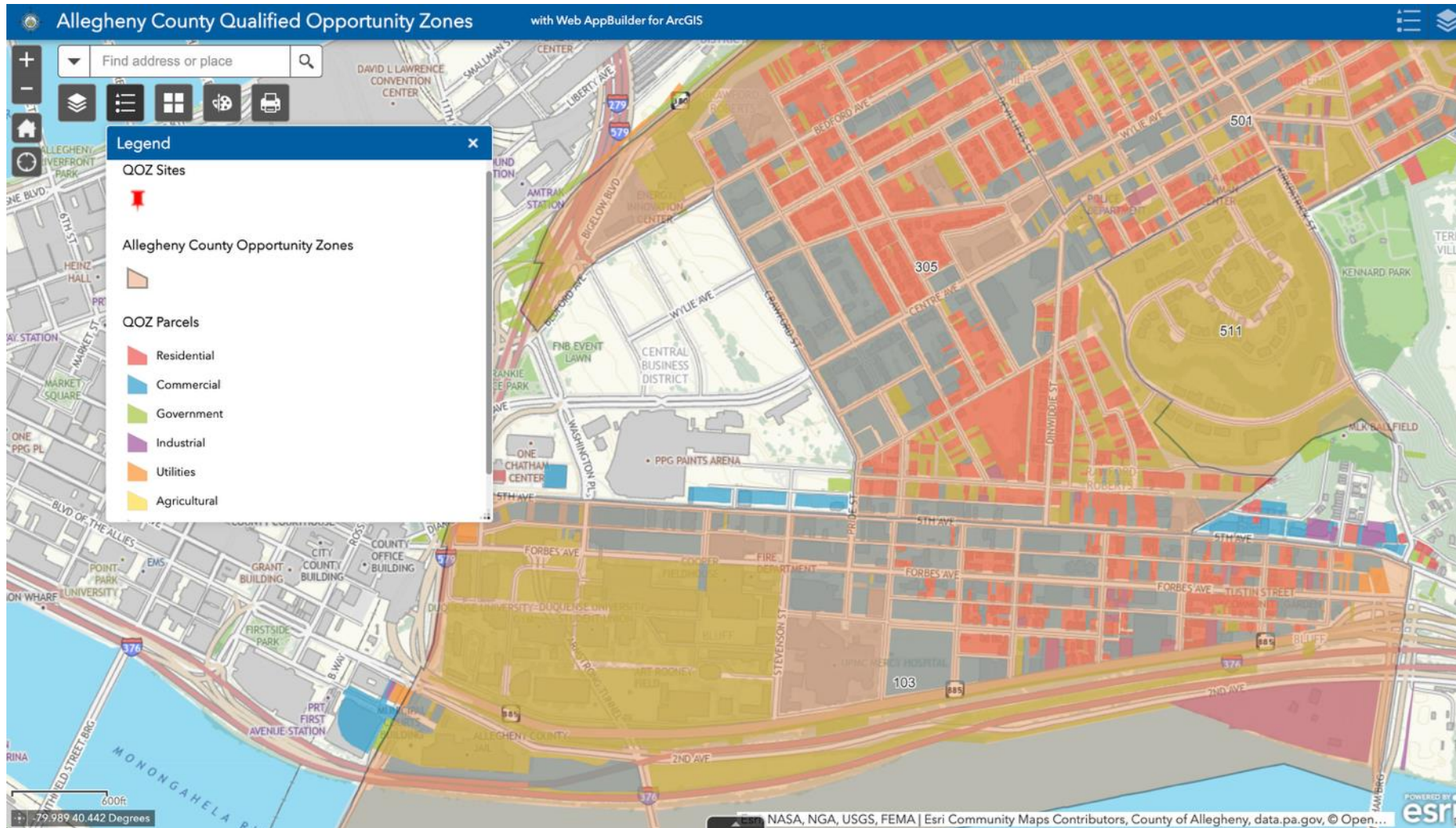
3. The policy test:

Are local policies investment-friendly and conducive to economic development?

Key questions for local leaders

- *Where do you wish to **channel development**?*
- *Where have you recently invested in **infrastructure** or enacted **zoning** reform?*
- *What are your priority neighborhoods for economic **revitalization**?*
- *What are your core **anchor assets** in eligible census tracts?*
- *Which tracts might be primed for **housing** and which for **commercial** development?*
- *Where are your **brownfield** sites? Where is there the greatest potential for **in-fill**?*
- *Are there nascent poles of **population growth** on which you'd like to build?*
- *Are there opportunities for **workforce housing** along key **transit corridors**?*
- *Where does the county have **land** that could be contributed to high-impact projects?*

Allegheny County, PA's, integrated zoning platform is a model



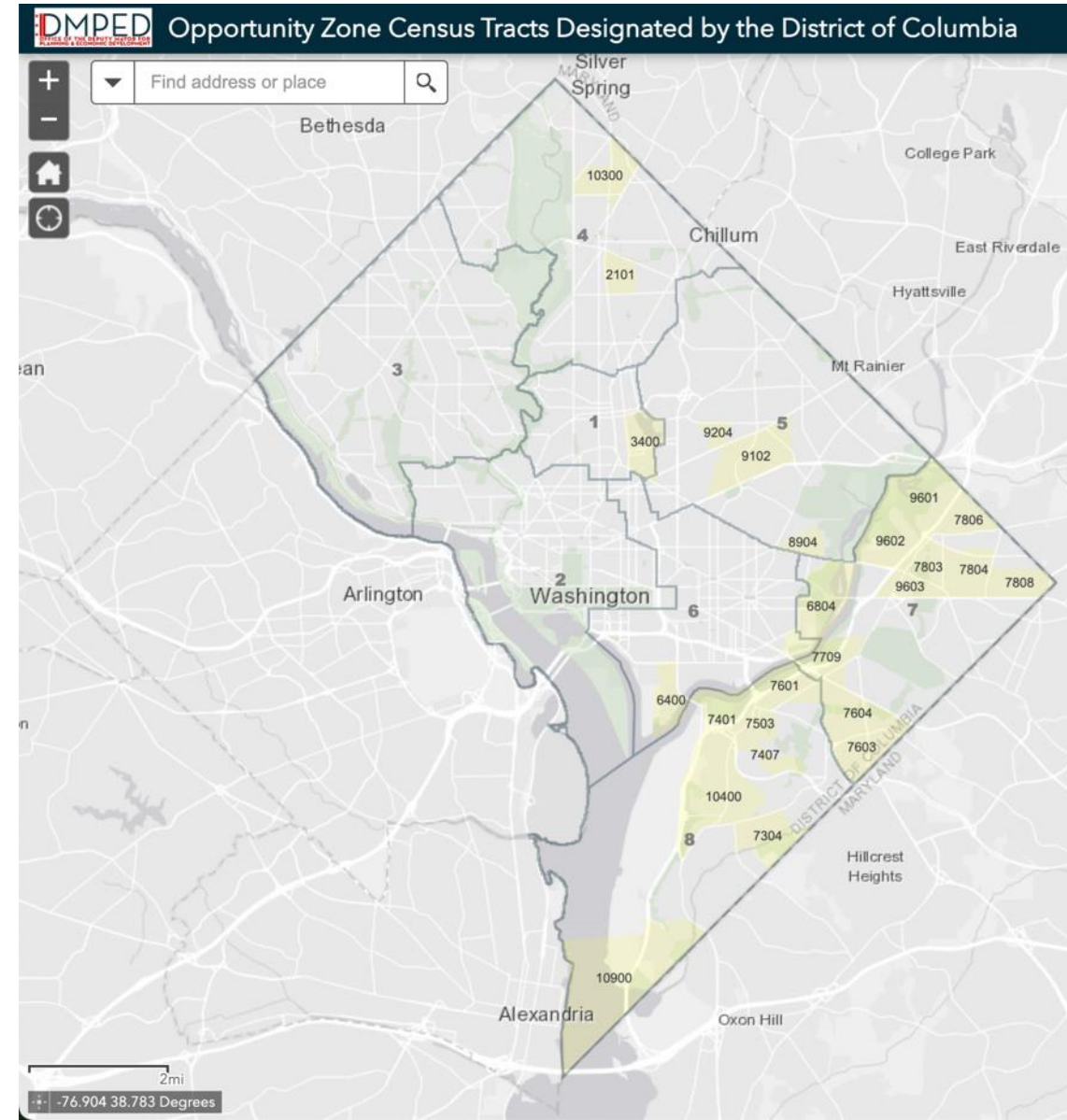
Layering on **vacant parcels**, **brownfield sites**, and other such information would be especially useful for the selection process

DC focused on layering incentives, gathering public input, and heeding market signals

DC's zone designation process

- Step 1: Determine eligibility, remove **outliers**.
- Step 2: Identify tracts with **commercial** land, high unemployment, and aligned with **city priorities**.
- Step 3: Gather **public input** via survey in which respondents could rank **semi-finalist** tracts and priorities.
- Step 4: Consult neighborhood **commissioners**; public.
- Step 5: Analyze data on **recent investments**, etc.
- Step 6: Overlay **complementary incentives** such as Supermarket Tax Credit and Great Streets grant program.
- Step 7: **Finalize** tracts prioritizing **disadvantaged** areas, high **investment** potential, high **impact** potential, and high public **support**.

Read more at [“How DC Designated Our Opportunity Zones”](#)



OZs in action — and impact

What tools are at your disposal to influence outcomes?

To **contribute to projects**:

- Permitting and approvals!
- Publicly-owned land
- Ground leases
- Occupancy guarantees

To **drive investment** towards **impact**:

- Inclusionary zoning
- Main Street and small business grant programs
- Parcel assembly and remediation
- Capacity building and ecosystem development grants



Impact Case Study: Opportunity Alabama

How it works:

- ✓ A non-profit “***created to be a catalyst for investments in meaningful projects and underserved places across Alabama***”
- ✓ Civic **entrepreneurship** and institutional **innovation** at work
- ✓ Seeded by local **utility, banks, and other anchors**
- ✓ Supported by **EDA, philanthropy, others**
- ✓ **Certified CDFI** with an affiliated investment fund

OPAL **builds capacity** and **solves problems**:

- ✓ Cultivates an **investor base** *and* a project pipeline
- ✓ Engages in **predevelopment** work
- ✓ Helps ready **distressed rural** regions for investment
- ✓ Connects **committed capital** to **high-impact** projects
- ✓ **Coordinates** capital and incentives



Read more at Opportunity Alabama, “Investing in Underserved Places”

<https://opportunityalabama.com/>

Impact Case Study: Adaptive re-use in Frederick, MD



Ox Fibre Apartments

Location: **Frederick, MD**

Congressional District: **Maryland 6th**

Opportunity Fund Manager: **BCC Opportunity Zone I, LLC**

QOZ Business: **400 Church Street Owner, LLC**

Investment Date: **Q3 2019**

Project Details: **Adaptive reuse of historic warehouse into 83 new affordable apartments**

- ✓ Historic industrial building converted into 83 affordable housing units.
- ✓ Available to families making 40-60% AMI in the center of a vibrant and amenity-rich neighborhood.
- ✓ Combined state LIHTC and HTC funding (\$15.4m in state-sponsored debt).
- ✓ OZ equity helped close a delicate capital stack and bring the project over the finish line.

Capital Stack



- Federal Housing Administration (FreddieMac) debt – \$10.5 million
- Housing Credit equity – \$7.1 million
- Historic Tax Credit equity – \$4.4 million
- Opportunity Zones equity – \$830,000
- State and County debt – \$3.4 million
- Deferred Developer Fee – \$670,000

Total Development Cost: Approximately \$27 million

Impact Case Study: Sharswood Ridge

- ✓ Creates **78 workforce housing units** for renters earning 80-100% AMI and **20 deeply affordable units** through project-based **vouchers** from the Philadelphia Housing Authority
- ✓ Provides a much-needed grocery store, bank, medical clinic, and ample retail space to this **medically underserved food desert**
- ✓ Made possible through many public, nonprofit, and for-profit investments and financing tools, including locally **crowdsourced capital**
- ✓ Led by a local, minority-owned developer and the city's PHA, it is been called one of the **largest and ambitious revitalization efforts** in the country
- ✓ Expected to create **300 permanent jobs**, most of which will go to local residents



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