



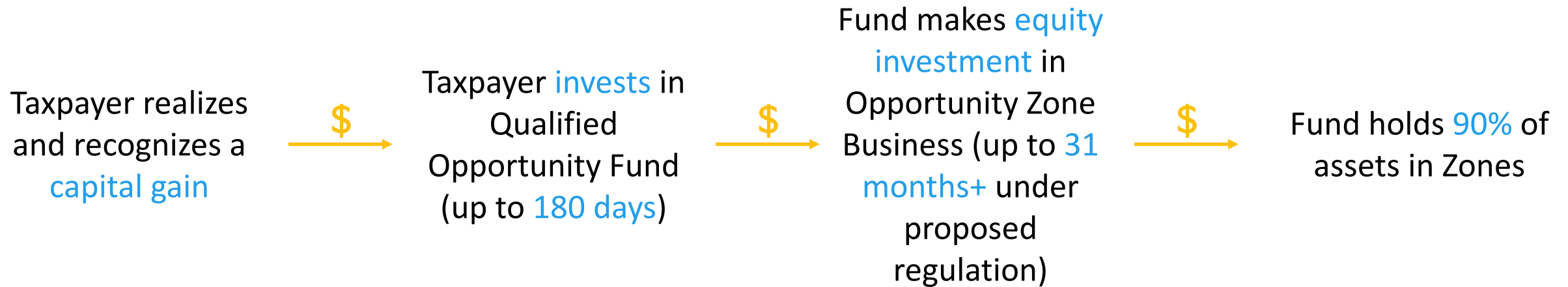
Opportunity Zones Overview

Brett Theodos
August 2019

Opportunity Zone Background



Steps to making an Opportunity Zone investment



Opportunity Zones **tax benefits**

- **Temporary deferral** of taxes on previously earned capital gains
 - Not taxed until the end of **2026** or when the newly-invested-in asset is disposed of, whichever is earlier
- **“Discount” (basis step-up)** of previously earned capital gains invested
 - At least **5 years** in Opportunity Fund = **10%** discount
 - At least **7 years** in Opportunity Fund = **15%** discount
- **Permanent exclusion** of taxable income on new gains
 - At least **10 years** in Opportunity Fund = no taxes on capital gains produced through their investment

Opportunity Zones are different

- Large segment of the US qualified (56% → 12% designated)
- Not an intermediary like a NMTC CDE or HFA
- Not a cap on total taxpayer subsidy
- Not a competitive application process
- Lots of possible use cases (but RE heavy)
- Not likely an even distribution of investment across Zones
- Incentive, not subsidy
- Speculative back end value, relatively shallow up front value
- How many more deals will pencil out?

Proposed Opportunity Zones regulations

- Funds can be retroactively self certified
- Opportunity Funds have 31 months (+ more if government delays) to invest; clock restarts with each contribution
- Opportunity Funds can be multi-asset investment vehicles that dispose of assets and distribute or reinvest gains; 1 year to redeploy
- At least 40% of intangible property used in the active conduct of a trade or business in the Opportunity Zone
- At least 50% of business income from active trade or conduct in the Zone, but with “safe harbors” for hours worked, salaries paid, and tangible property

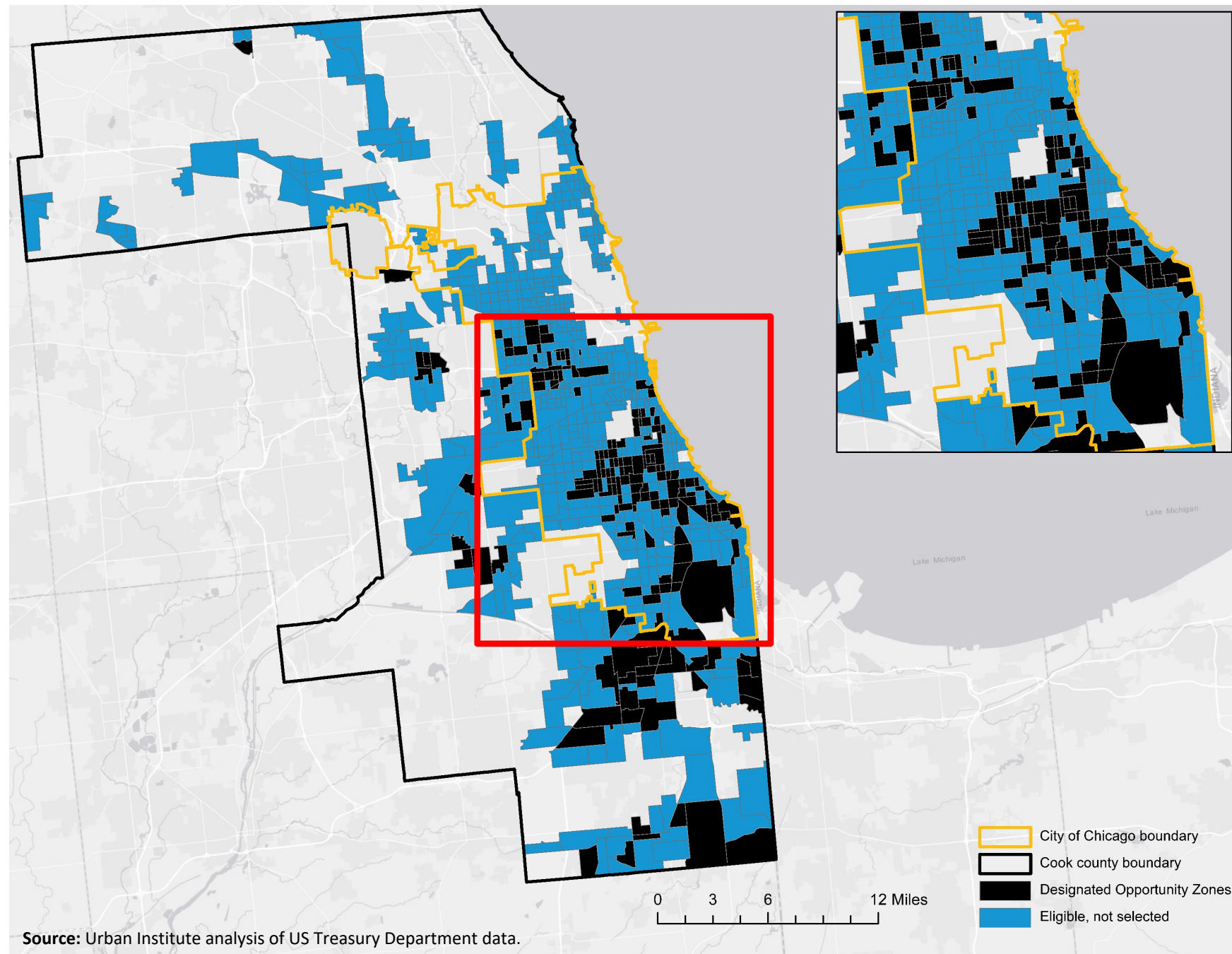
Proposed Opportunity Zones **regulations** (cont'd)

- **Leased property** treated as business property, w/o substantial improvement requirement . Triple net leases alone don't qualify as active trade or business.
- Owned property must either meet “**original use**” or “**substantial improvements**” tests
 - Vacant structures (>5 years) are “original”
 - No substantial improvement needed for unimproved land
 - Substantial improvement requires doubling basis within 30 months, but land – doesn't count in basis
- Other questions still unanswered, most notably, reporting requirements

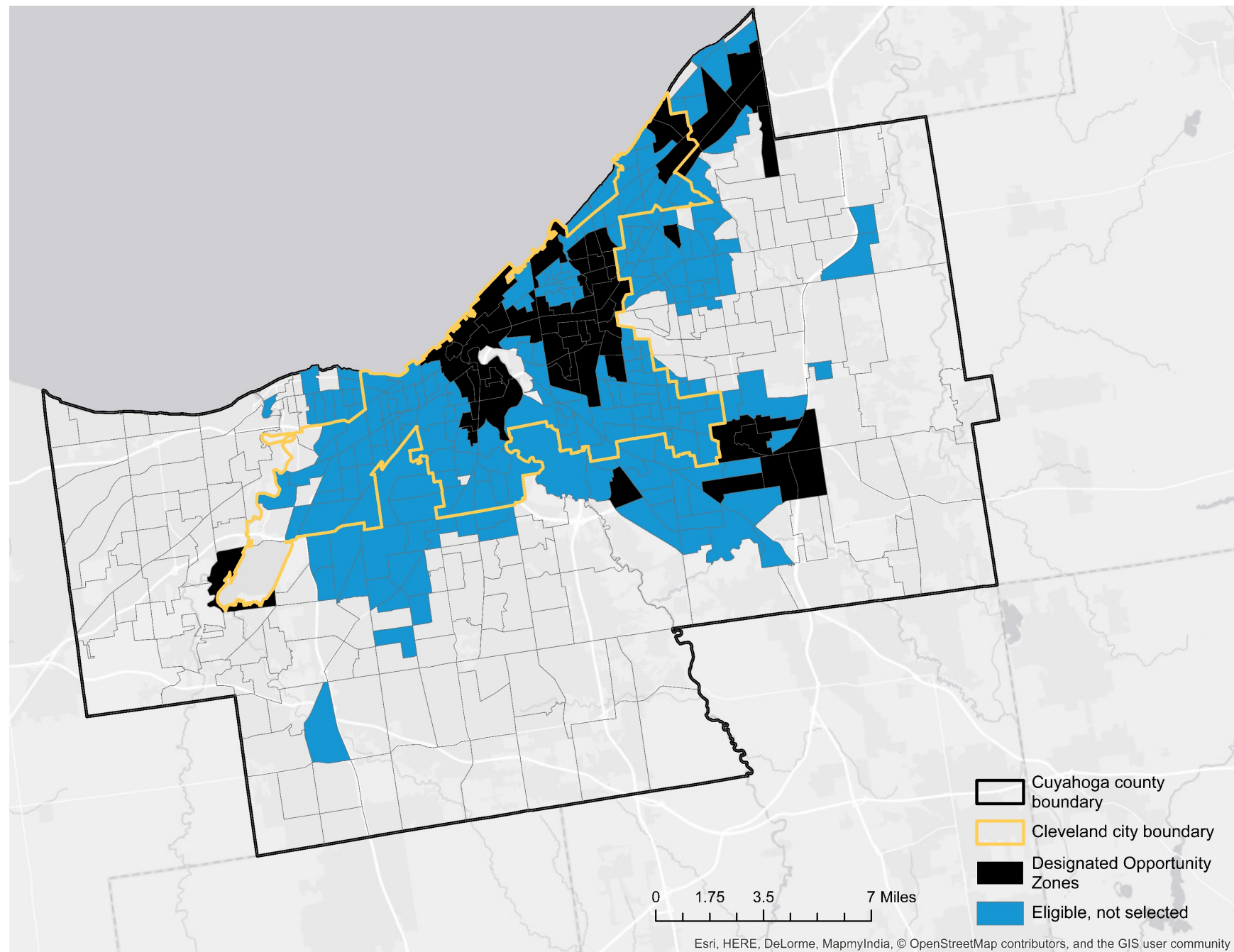
What do Opportunity Zones look like?



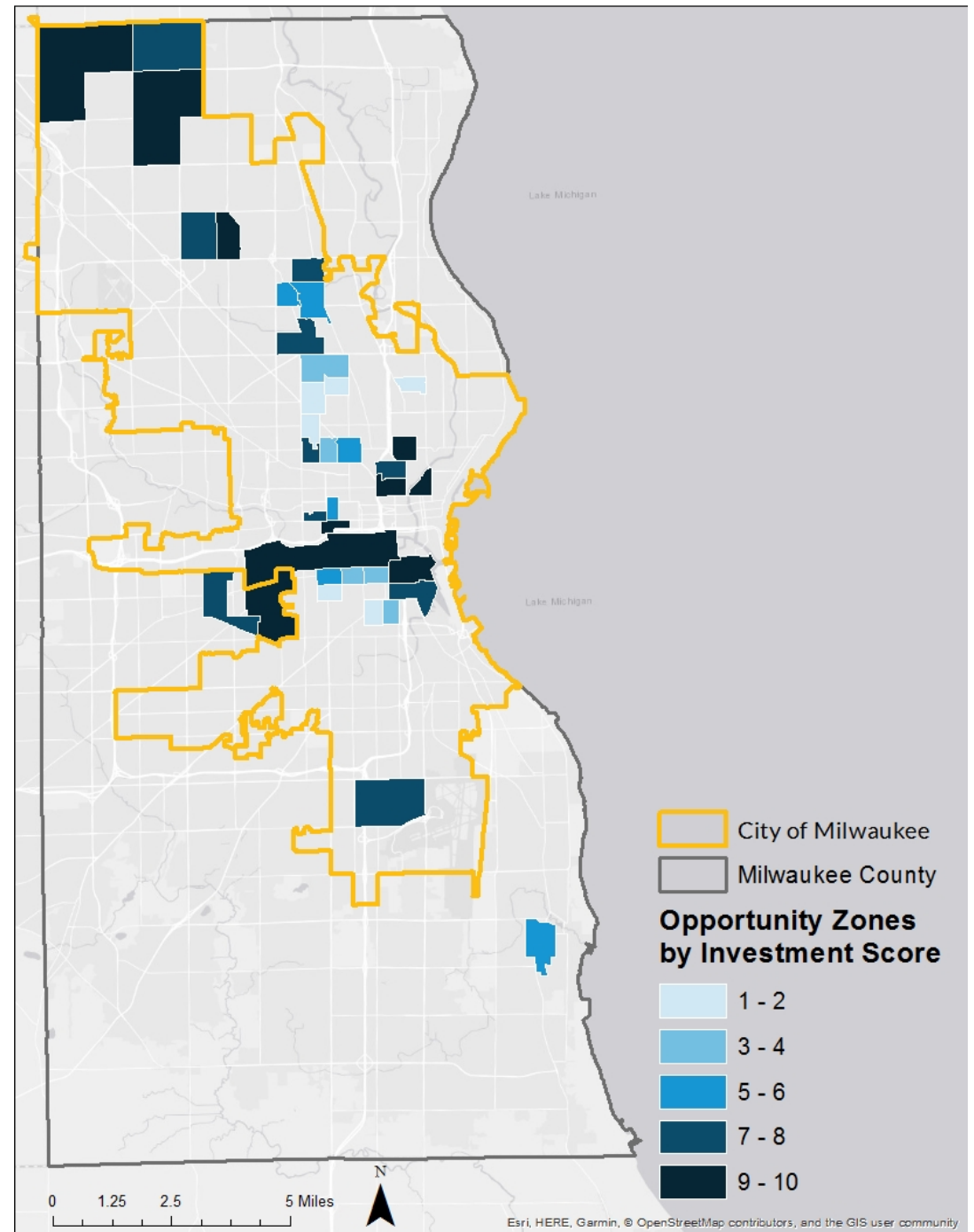
Chicago/Cook County Opportunity Zones



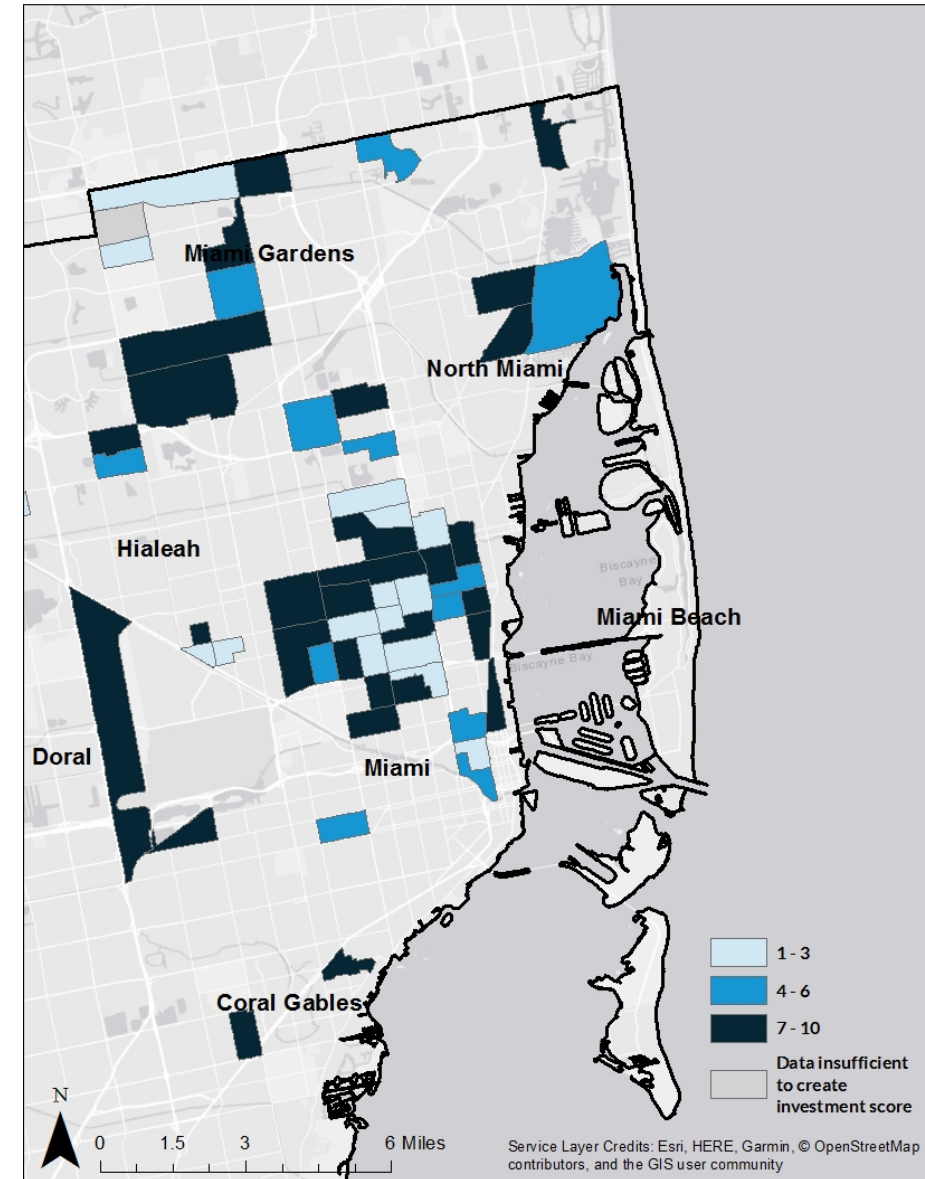
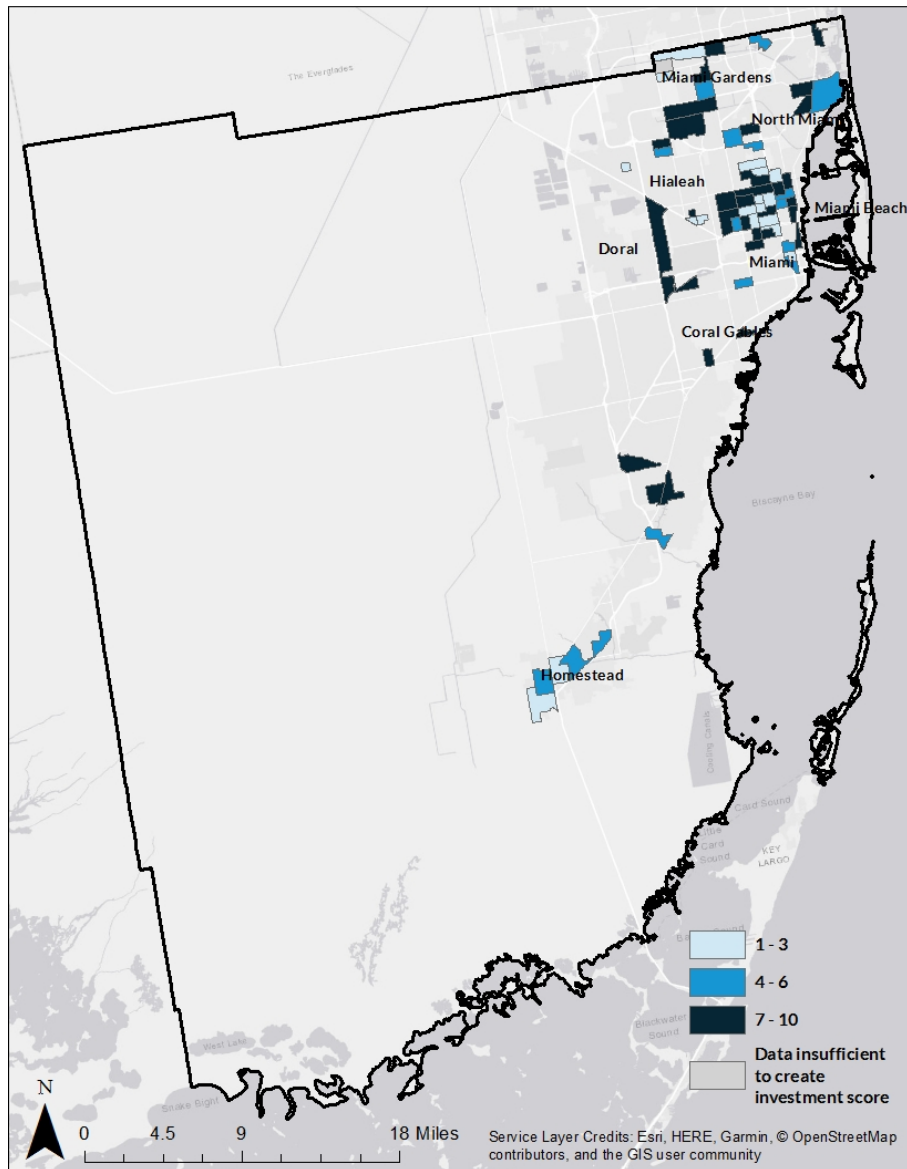
Cleveland/ Cuyahoga County Opportunity Zones



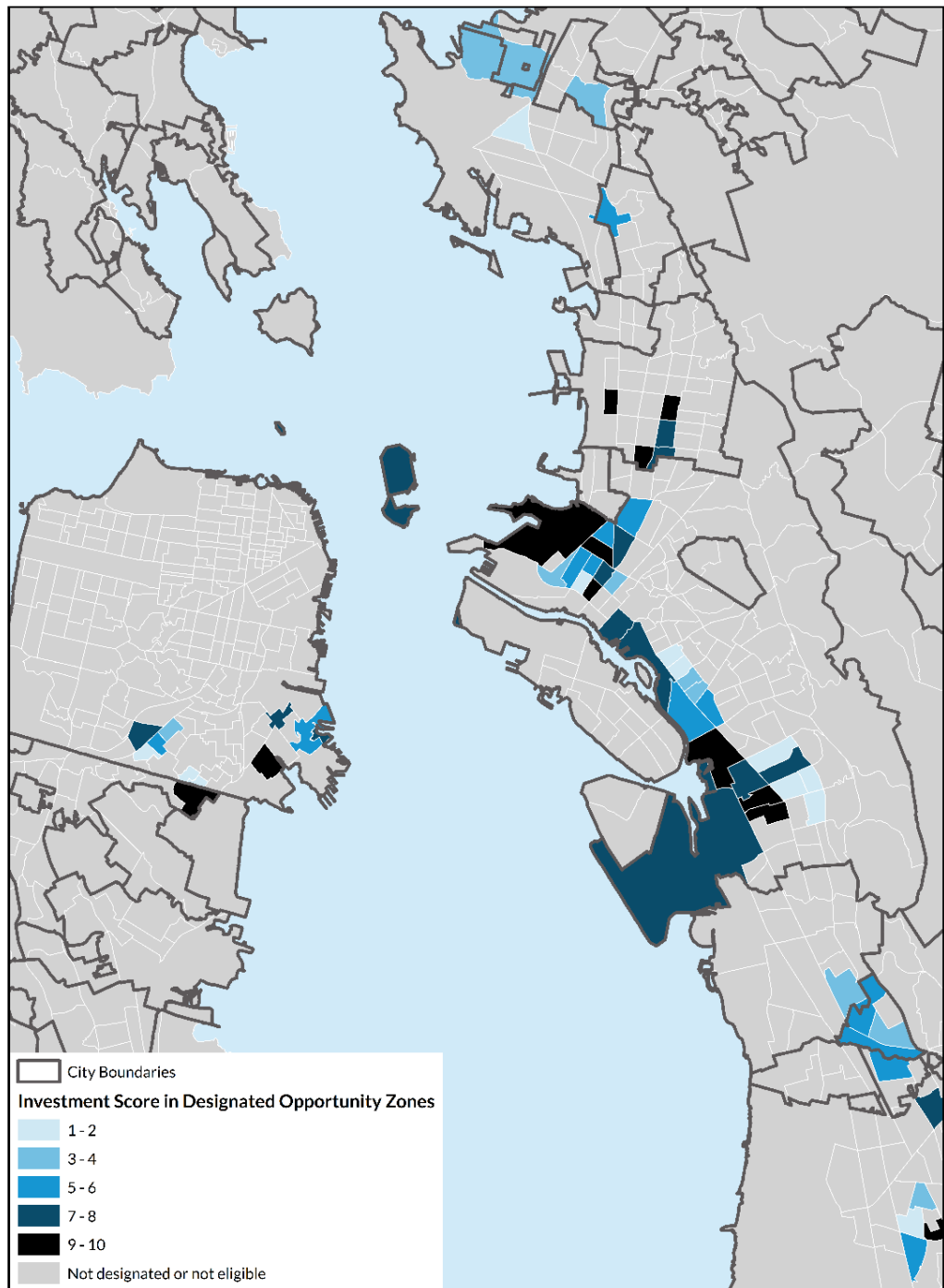
Milwaukee Opportunity Zones



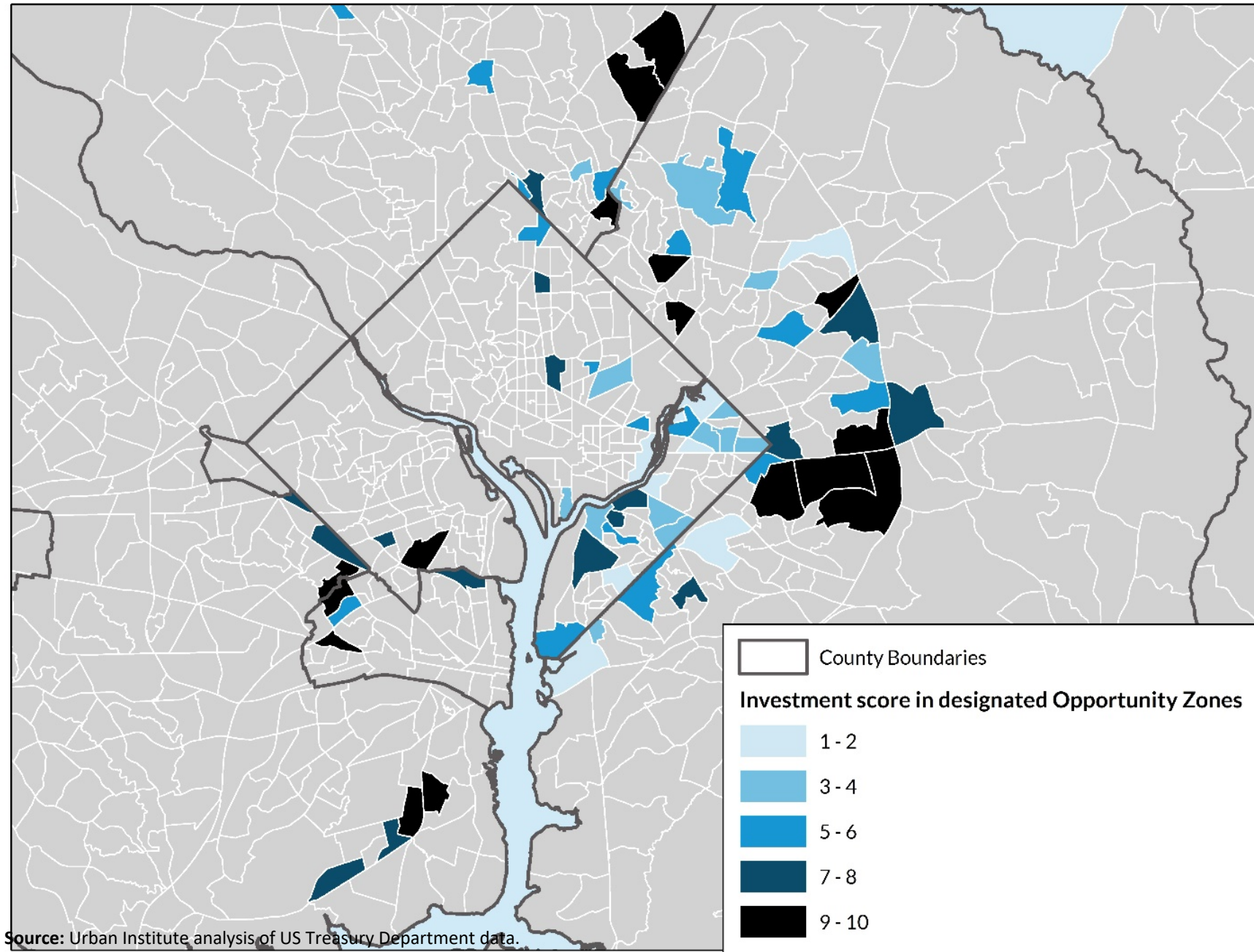
Miami-Dade Opportunity Zones



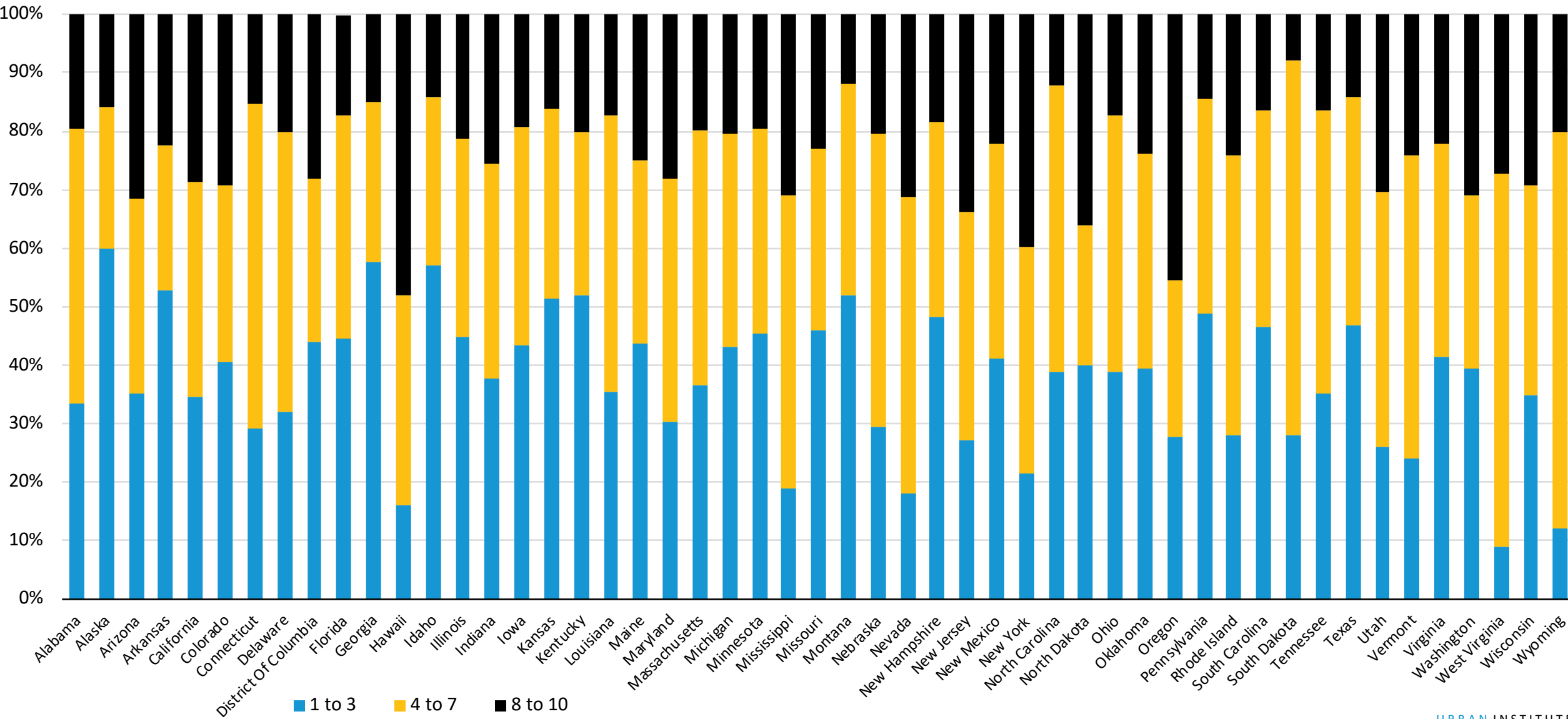
Bay Area Opportunity Zones



DC Area Opportunity Zones



Investment Score Distribution of Opportunity Zones



Zone characteristics

Median household income	\$33,345
Poverty rate	31.8%
Unemployment rate	13.1%
Median home value	\$145,187
Median rent/month	\$768
Homeownership	44.6%
Severe rent burden	26.5%
Vacancy rate	15.8%

Zone characteristics (cont'd)

White alone	39.6%
Black alone	24.0%
Hispanic	29.9%
Asian Americans & Pacific Islanders alone	2.9%
Age 25+ with HS degree or less	54.8%
Age 25+ with BA degree or higher	38.0%
In a metro area	78.2%
In a micro area	11.4%
Not metro or micro	10.5%



305
377-9009