

OPPORTUNITY ZONE UPDATE

Andrew Seth, Sustainable Strategies DC

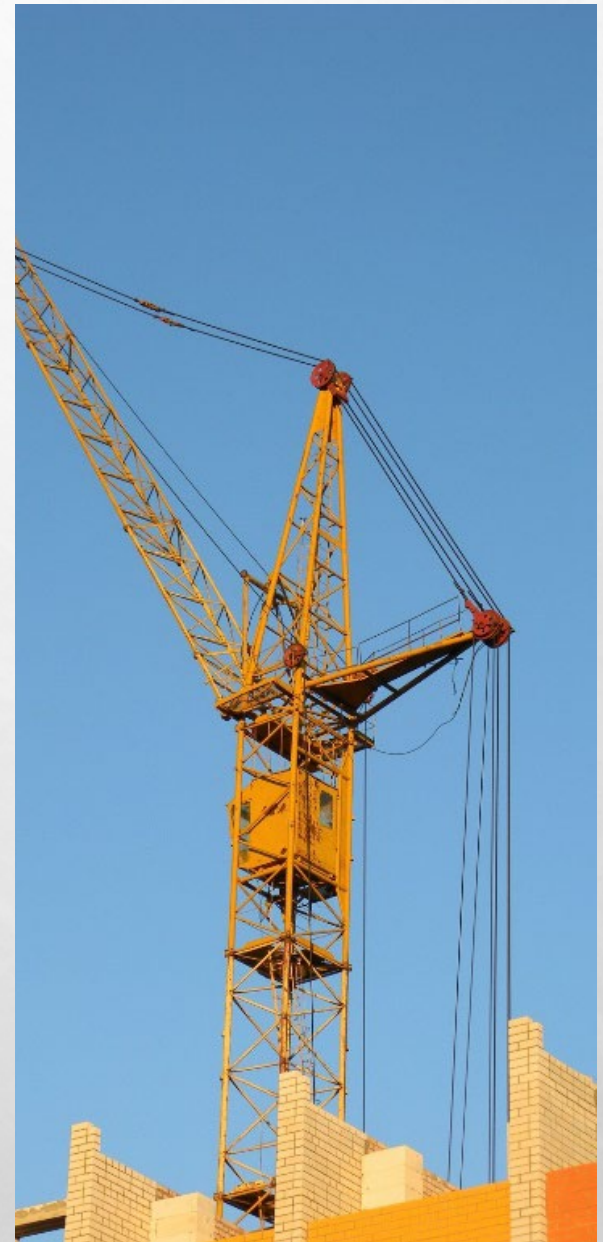


OPPORTUNITY ZONE OVERVIEW

GOAL – Encourage long-term private capital investment in low-income urban and rural communities; there's \$6.1 trillion of unrealized capital gains available

INCENTIVE – Tax deferrals on original capital gains invested in Opportunity Zones and tax exclusion on new capital gains achieved from Opportunity Zone investments

OUTCOME – Equity share in and launch of development projects that may not have traditionally penciled out



OPPORTUNITY ZONE TAX INCENTIVES

TEMPORARY TAX DEFERRAL – Taxable capital gains are deferred (until sale of equity share or December 31, 2026) if investors capitalize projects in designated Opportunity Zones

STEP-UP IN BASIS – Investors allowed to exclude 10% of original gain from taxation with 5-year Opportunity Zone investment and 15% exclusion with 7-year Opportunity Zone investment

PERMANENT EXCLUSION – Any gains from an Opportunity Zone investment held at least 10 years are excluded from taxation

BIG PICTURE

- **Brownfields in Opportunity Zones are attractive investment opportunities.**
- **Pre-development costs (site demolition, asbestos abatement and brownfields cleanup) for planned vertical development are eligible for Opportunity Fund investment.**
- **Properties that are purchased bare, with buildings intended for demolition, or buildings intended for renovation that have been vacant for at least five years will all satisfy “original use” requirements.**
- **Buildings slated for renovation that have been vacant for fewer than five years will be subject to the “substantial improvement” test.**

https://www.novoco.com/resource-centers/opportunity-zone-resource-center/opportunity-zone-funds-listing

Apps First & Main Amer. FactFinder QuickBooks Slicing Up Eyeballs Current Grants Ascensus DC Health

WHERE TO LOOK?

www.novoco.com/resource-centers/opportunity-zone-resource-center/opportunity-zone-funds-listing

www.ncsha.org/resource/opportunity-zone-fund-directory

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Opportunity Zones Resource Center

Opportunity Zone Funds Listing

The listings on this page are provided as a free service to potential commercial investors. This informational listing is not a solicitation for investments into these funds. We do not provide investment advice and these listings are not to be construed as a financial transaction with a particular party.

The information below is based solely on information provided to Novogradac & Company LLP by each company and Novogradac & Company LLP is not responsible for the accuracy of the information in these listings. Companies utilizing this free listing are solely responsible for obtaining all necessary clearances from their compliance departments.

To be included in this list, please contact cpas@novoco.com.

Opportunity Zone Funds Listing			
Fund Name	Funds	Investment Footprint	Inv

TODAY'S WEBINAR

A look at Opportunity Zones and Opportunity Funds from a few different perspectives:

- **Where We've Been, Where We're Headed – Tim Fisher, Council of Development Finance Agencies**
- **Layering Opportunity Funds into Your Capital Stack – Jesse Silverstein, Development Research Partners**
- **Pitching Projects for Opportunity Zone Investment – Brandon Daigle, FLAG Development**

The Latest on Opportunity Zones



Education · Advocacy · Research · Resources · Networking

Tim Fisher
Director, Government & External Affairs
Council of Development Finance Agencies
May 21, 2019

Quick Rehash of the Basics

- ▶ 8,700 Opportunity Zones across the United States.
- ▶ Nominated by Governors in early 2018. All Opportunity Zones designated by the U.S. Department of the Treasury as of June 2018.
- ▶ The designations are fixed and cannot be changed.
- ▶ Opportunity Zones are low-income census tracts eligible for investment from Opportunity Funds.

Quick Rehash of the Basics

- ▶ Capital gains reinvested in a **Qualified Opportunity Fund (QOF)** within 180 days from date of sale or exchange creating the gains are eligible for the following:
 - 100% deferral on taxable gain until earlier of sale of investment in QOF or December 31, 2026
 - 10% reduction of capital gain invested in QOF if held for at least 5 years
 - 15% reduction of capital gain invested in QOF if held for at least 7 years
 - 100% reduction of capital gain invested in QOF if held for at least 10 years

A Deeper Look into OZs

- ▶ A Qualified Opportunity Fund (QOF) is:
 - Either a corporation or partnership
 - Must hold at least 90% of its assets in **Qualified Opportunity Zone Property**
 - Must substantially improve (100% of adjusted basis) property

- ▶ Qualified Opportunity Zone Property is:
 - Opportunity Zone Stock
 - Opportunity Zone Partnership Interest
 - **Opportunity Zone Business Property**

- ▶ Qualified Opportunity Zone Business Property is:
 - Tangible property used in a trade or business
 - Must be acquired by QOZ after December 31, 2017
 - Original use of the property must commence with QOF, or the QOF substantially improves the property (see above)

Key Takeaways: First Tranche

- ▶ Pre-existing entities may self-certify as a QOF using IRS Form 8966.
- ▶ Only capital gains – such as those coming from the sale of stock or a business – are eligible for the tax deferral.
- ▶ Any appreciated value on an investment held for at least ten years may receive a tax exemption until **December 31, 2047**.
- ▶ Land is excluded from the substantial improvement calculation.

EPA Reaction to First Tranche

In a comment letter, the EPA OBLR requested the IRS allow the following in regard to brownfields in Opportunity Zones:

- ▶ Brownfield cleanup of real property to constitute original use.
- ▶ Cleanup or reuse of vacant or underutilized property to constitute original use.
- ▶ Foreclosed and tax-reverted properties held by local governments treated as “underutilized or abandoned property.”
- ▶ Brownfield investments constitute substantial improvement.
- ▶ Gains from investments in brownfield improvements to land are permitted to be carried over into other QOZ investments
- ▶ Allow QOF investments to be stacked for brownfield properties that require remediation

Key Takeaways: Second Tranche

- ▶ An investor who sells their interest in a QOF (before December 31, 2026) may reinvest in another QOF. However, the deferral clock will restart.
- ▶ Original use begins when a property is first put into use by a QOF.
- ▶ While land can qualify as QOZ business property if it is used in the active trade or conduct of a business, unimproved land is not required to be original use or substantially improved.
- ▶ Leased tangible property can be treated as QOZ business property, and there is no original use requirement for leased property.
- ▶ Property that has been unused or vacant for an uninterrupted period of at least five years qualifies as original use.

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Opportunity Funds: On the Ground

Jesse Silverstein
Director, Real Estate Economics
Development Research Partners

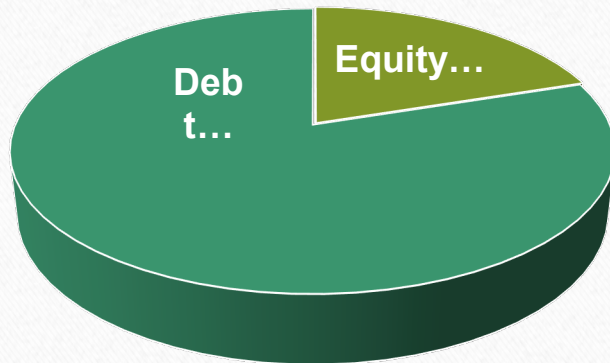


The Promise of Opportunity Zones

- Attract capital into economically underperforming areas
- Boost local real estate and business investment activity
- Stimulate real estate development on (imminent) vertical construction that supports local employment and housing
- Bring patient capital to slower-paced local economies

Real Estate Investment

Investment Structure



Investment Returns

Net Operating Income (NOI)

+

Asset Liquidation (after hold)

=

Return on Investment Revenue (ROI)

Quick vs. Patient Investment

Quick Returns Rely on Liquidation Proceeds

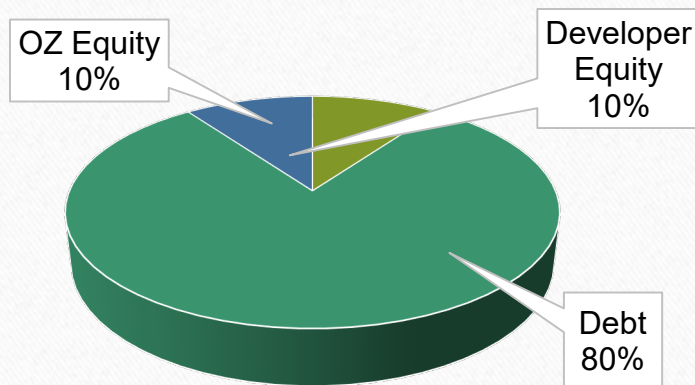
VS.

Patient Returns Rely on NOI Proceeds

Dynamics of OZ Equity

- No limit on how many investors or investment partners are in any particular deal
- No max or min on how much the OZ fund should comprise of the overall investment
- Opportunity Funds may comprise but a small % of the overall investment
- There is no restrictions on the type or amount of other public or private investment stacks with OZ equity
 - No limit to governmental incentives and co-investment
 - Local government contributions may provide the community buy-in to lower risk for all other funders and “grease the wheels”

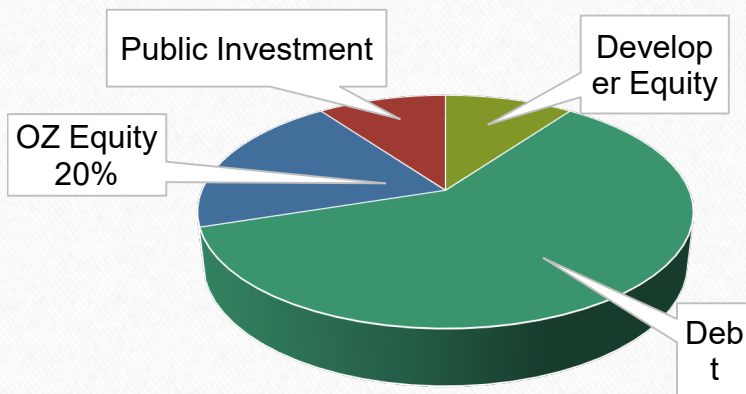
Role of Opportunity Funds: An Example



HURDLE: Financial Feasibility Gaps

- Addresses Insufficient developer equity
- Cover development over-burdens, i.e.- brownfields, utility challenges, soil conditions
- Attract patient investment to pioneer markets
- Attract socially responsible funds

Role of Opportunity Funds: An Example



Hurdle: Insufficient bank debt offered

- Possibly due to perceived risk
- Spread risk in higher-risk and/or pioneer development
- Bring in high-credit investment partner
- Enables interest rate negotiation or buy-down

• OZ Fund Fills the Gap

• Public Investment Lowers Deal Risk

Opportunity Fund Types

Differentiated by geography, investment type, and management style:

- Managed Funds
 - REITs (portfolio)
 - Syndicators (single-project)
 - Cash distributions are allocated between the general partner/manager and limited partners; usually in accordance with what is called a “distribution waterfall.”
 - CDFIs
- Project Specific
 - Developers
 - Partnerships
 - LLCs
- Community Based
 - Local high wealth individuals and families (possibly organized)
 - Targeted fund relationships
 - Local or Regional Coalitions

OZ Fund Trends

- **Currently, most capital flowing to markets with “intrinsic” value**
 - “Gimme” sites & high momentum markets
 - Active redeveloping areas/revitalization phase of neighborhood lifecycle
 - Proactive Economic and community development
- **Readily adopted by real estate development and financing markets**
 - Growing national real estate firm interest
 - Burst of OZ funds and investment banking startup activity
 - Property owners seeing OZs as an alternative to 1031 exchanges: greater tax benefits; doesn't require investment of principal (capital gains only); and doesn't require an intermediary and associated costs.

OZ Fund Trends

Emerging Opportunity Zone Investors

- High Wealth Individuals
- Family Investment Offices
- Institutional Investor interest is limited

The opportunity zone program has visibility with **high net-worth investors**, many of whom have been driving greater interest in **social impact funds** and calls for “**socially responsible investing**”

- Cushman & Wakefield

OZ Clarifications

- 100% increase in taxable value, not market value
- Working Capital Safe Harbor to 30 months
 - Can be extended multiple times if demonstrable progress along a capital deployment schedule
- Original use if buildings are vacant for at least 5 years (proposed)
- Protocol for business equity investments
- Reporting requirements under consideration

Prospectus Considerations

- Use multi-purpose or multi-stage prospectus
 - Community overview, economic profile, economic development outreach for market risk analysis
 - Site specific market and pro forma data for investment analysis
- Know you're audience
 - Developers & Equity Investors: institutional, national, regional, local, owner-occupant
 - Fund Managers
 - Analysts
 - Social Impact Investors
- Be proactive

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Reinventing the Riverfront:

A Vision for Redeveloping a Former Refinery into a Destination to Live, Work, and Play





FLAG
HISTORY
VISION
EXECUTION





Founded in 2018 in Wyoming

Design, construction management, & real estate development firm

Emphasis on Commercial/Residential development and redevelopment of downtown Casper & the Old Yellowstone District (Urban Renewal Area)

FLAG contracted to Refined Properties for redevelopment of Platte River Commons



History

Standard Oil developed 84-acre tract west of Casper

Began production in 1914

In 1922, the Standard Oil Refinery became largest volume gasoline refinery in the world, turning 1.35 million barrels of crude oil per month into 615,000 barrels of gasoline.

Renamed Amoco Refinery in 1985, closed in 1991

ARAJPB created by City in 1998 to represent County & City to redevelop brownfield site



History

Platte River Commons



History

Site Developments

3 Crowns Golf Course

WTBC Building

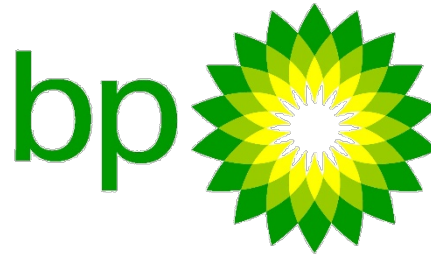
Oil & Gas Commission Building

Commercial Office Building

Otolaryngology Office



History

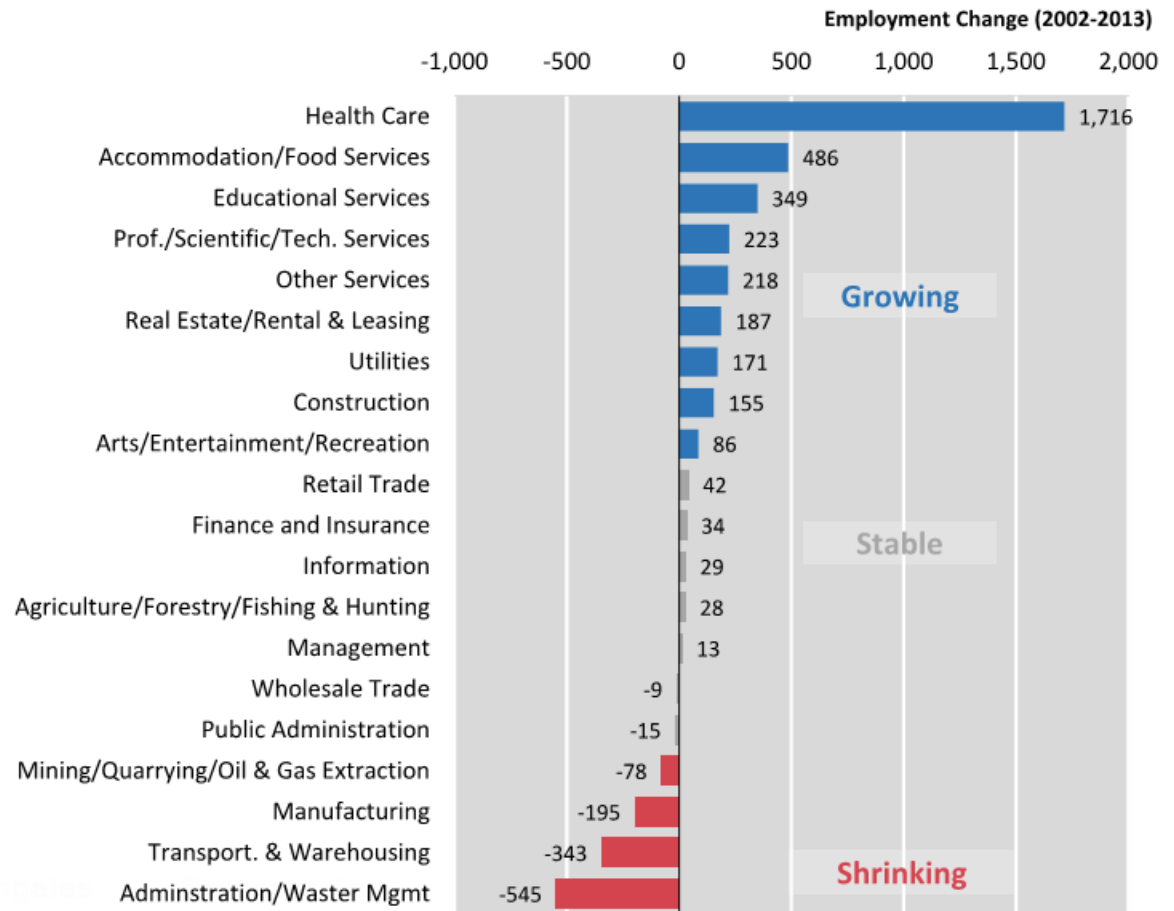


Vision - Market Study

Employment Growth

- While employment in oil and gas and extraction industries drove much of the growth in Natrona County, the City's employment has largely grown due to:
 - Health Care
 - Accommodation/Food Services
 - Educational Services

Figure: Change in Employment by Industry, City of Casper, 2000-2013



Source: LEHD; Economic & Planning Systems

Vision - Market Study

Commercial Development

- **Retail**

- Retail is the fastest growing development segment in the City
- Retail rents have increased rapidly

- **Health Care**

- Health care and service sectors are likely to continue growing
- Healthcare uses are primarily clustered east of downtown

- **Office**

- There has been little office development in the last 10 years
- Office rents are likely not high enough to support significant new construction



Wyoming Medical Center

Vision - Market Study

Residential

- Residential has been one of the steadiest segments in Casper's development market
- Residential will help create mixed used spaces, support retail, and decrease the build-out time
- **Senior Living**
 - There will be increasing demand for a range of housing for seniors, including independent and assisted living products
 - Senior living on the Platte River Commons site would complement not compete with development Downtown
- **Millennials**
 - Interest in living in mixed use downtowns; "live, work, play" environments
 - Includes small cities in the region like Boulder, Fort Collins, Bozeman, and Boise



Ridge at Blackmore, a recent multifamily project on the east-side of Casper



Hotel Virginia, an adaptive reuse apartment building in Downtown Casper

Vision - Market Study

Targeted Uses

- **Grocery Store**

- A grocery store would help support development Downtown and senior housing
- Another grocery store is supportable based on household growth in the next 5-10 years
- A smaller grocery store with a specialty focus would be supportable in a shorter timeframe
- There may be a more immediate opportunity to replace the aging Safeway on the west-side

- **Hotel & Conference Center**

- Casper has desirable market attributes, including its location in the center of the state
- Inadequate supply of meeting and banquet space
- No existing conference and meeting oriented hotels



Example of urban scale grocery store to support the Downtown

Catalytic Investments

Riverfront Parks – Findings

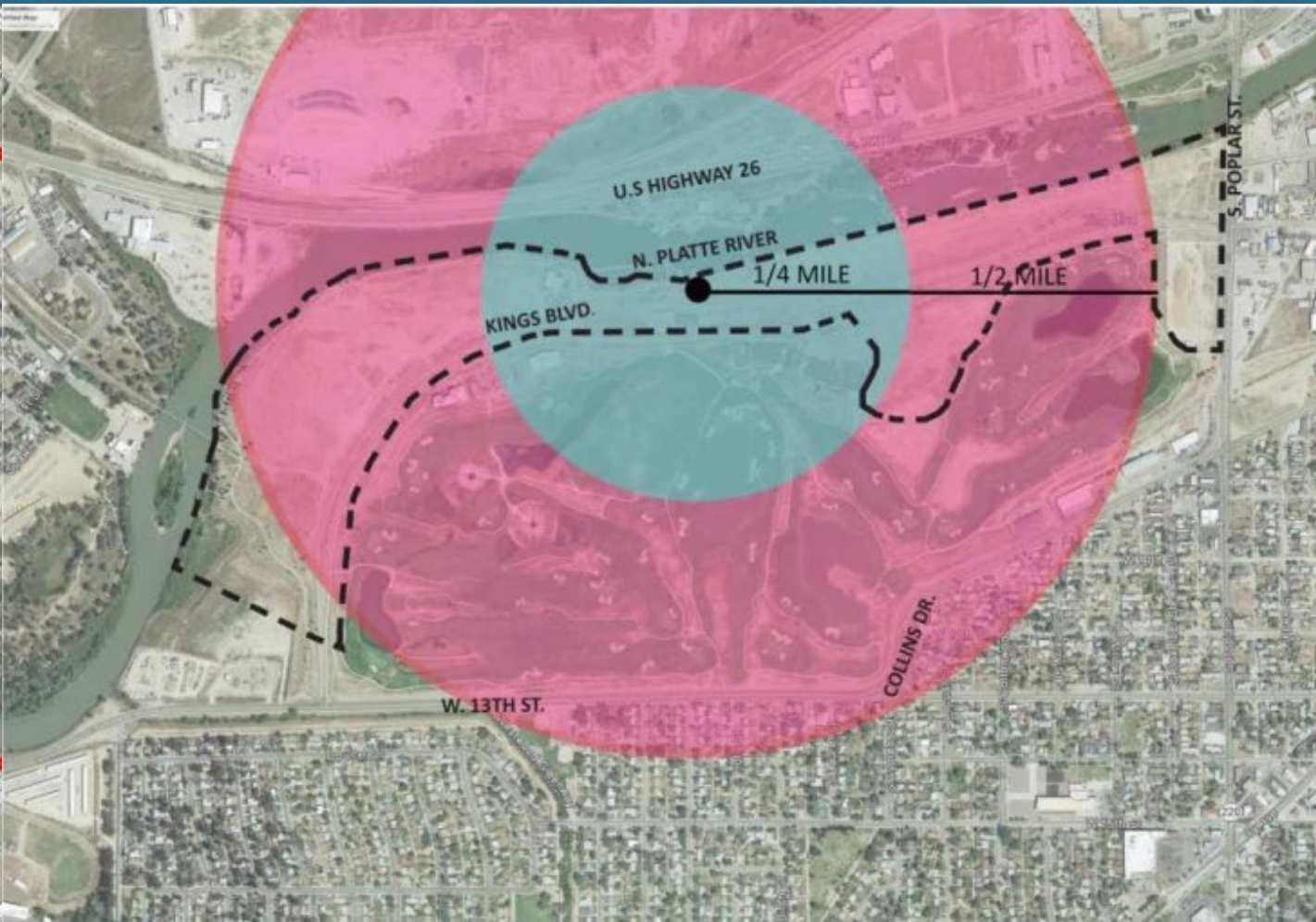
- Cities usually take the lead in making the investment
- Important to integrate the parks into the fabric of the city as well as to include other types of attractions
- Riverfront parks are often longer term investments, and can take years to build-out and attract private investment



On top: plans for Commons Park on the South Platte River in Denver, CO that has catalyzed a significant amount of development

On bottom: apartment development built on the City Deck river walk in Green Bay, WI

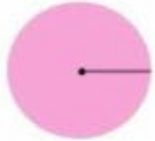
Vision – Site Analysis



LEGEND

1/2 MILE WALKING DISTANCE
(10 MIN.)

1/4 MILE WALKING DISTANCE
(5 MIN.)

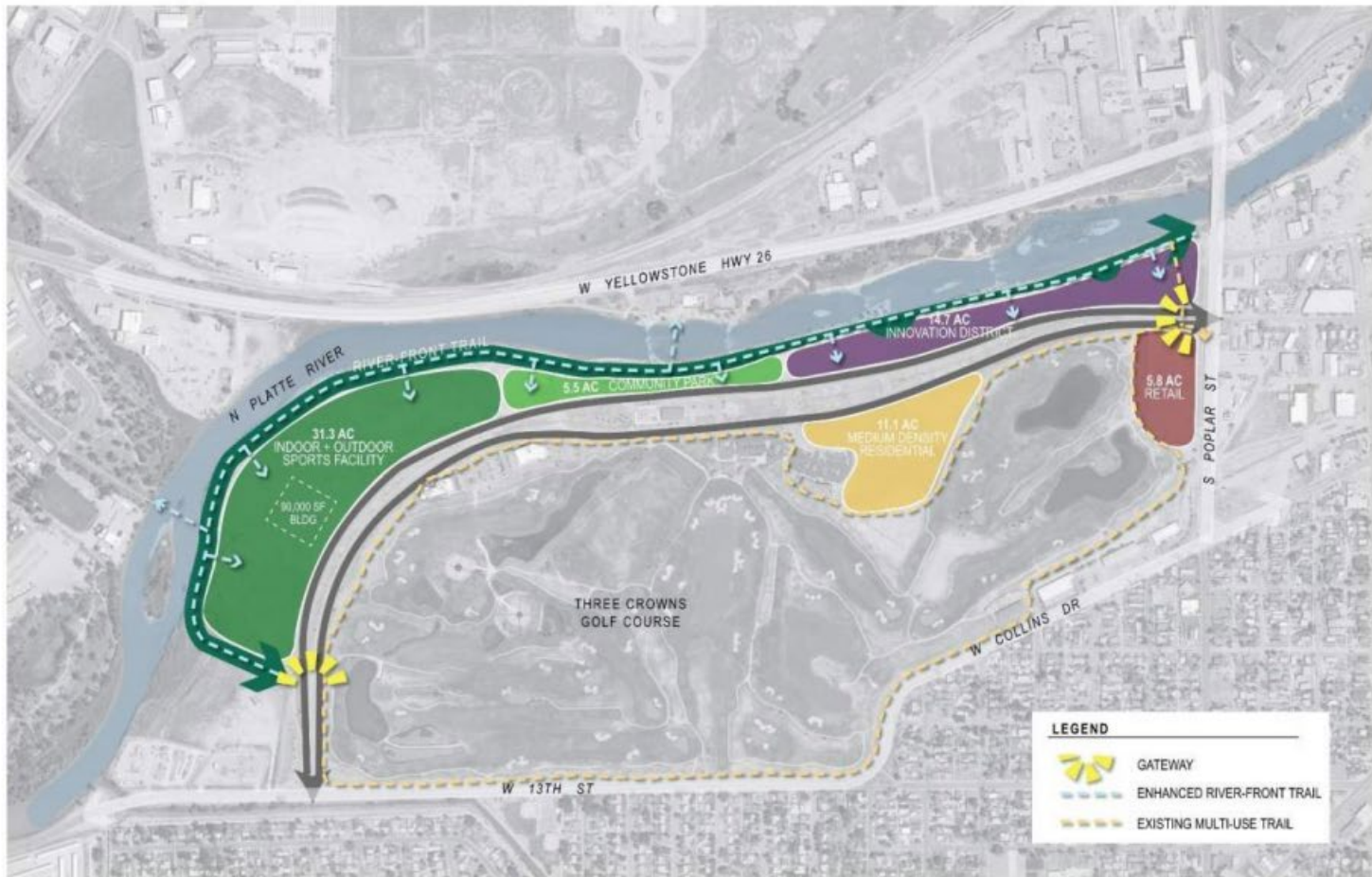


Vision – Development Scenarios

Preferred Development Concept

Description	Westside	Midtown	Downtown
Development Scenarios			
Preferred	<ul style="list-style-type: none"> • Senior Living Village 	<ul style="list-style-type: none"> • Innovation Zone 	<ul style="list-style-type: none"> • Grocery Store • Brewery/Brewpub • Restaurants
Secondary Options	<ul style="list-style-type: none"> • Indoor Recreation Complex • Hotel & Conference Center 	<ul style="list-style-type: none"> • Office Park • Residential (condos, townhomes, patio homes) 	<ul style="list-style-type: none"> • Senior Apartments and other residential
Park and Open Space			
Options	<ul style="list-style-type: none"> • Outdoor Recreation • Open Space • Trails 	<ul style="list-style-type: none"> • Dock • Open Space • Trails 	<ul style="list-style-type: none"> • Riverwalk • Open Space • Pocket parks • Trails

Vision – Development Scenarios



Vision – Development Scenarios



Execution – Priority Projects

Oil City Center

Indoor Fieldhouse

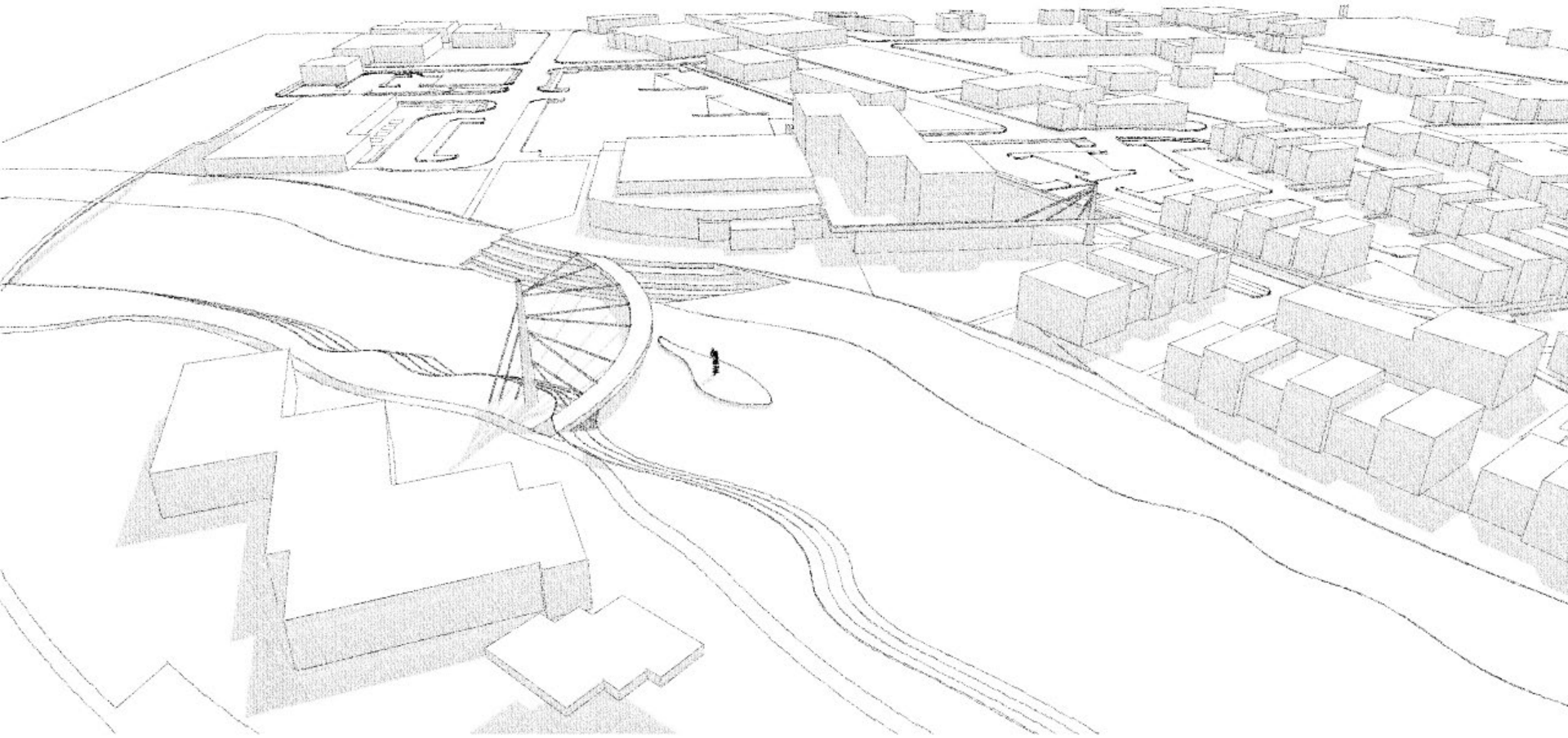
Mixed-Use Retail

Grocery Store

Innovation District



Execution – Oil City Center (\$72M)



Execution – Indoor Fieldhouse



Execution – Opp. Zone Prospectus

I. Basic Data –

Casper Metro Economy by the Numbers

Total Annual Income





\$6 Billion

Source: U.S. Bureau of Economic Analysis; Wyoming at Work

Supply & Demand

There are 6.4 candidates available per job opening.

Jobs Available (1,299)   !

Candidates (8,347)              

 = 600 jobs  = 600 candidates

Source: Wyoming at Work

Employment & Unemployment



Source: Dept. of Labor; Wyoming at Work

Natrona County is projected to grow by **14,300 jobs** over the next 20 years.

Healthcare is projected to be the fastest growing sector, adding over **3,000 jobs**.

Source: 2017 Platte River Commons Feasibility Study

Execution – Opp. Zone Prospectus

I. Basic Data – Opportunity Zones

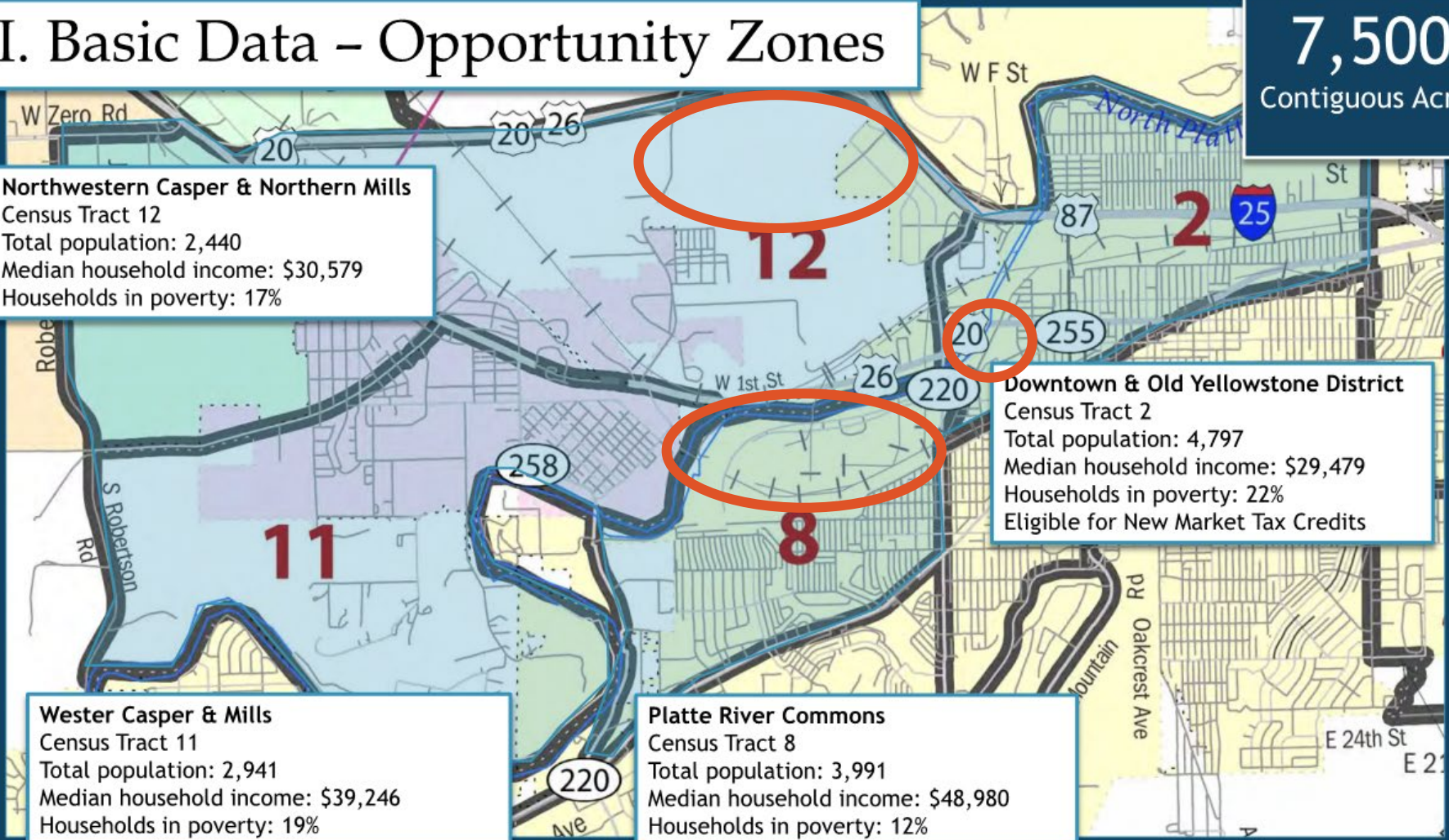
7,500
Contiguous Acres

Northwestern Casper & Northern Mills
Census Tract 12
Total population: 2,440
Median household income: \$30,579
Households in poverty: 17%

Downtown & Old Yellowstone District
Census Tract 2
Total population: 4,797
Median household income: \$29,479
Households in poverty: 22%
Eligible for New Market Tax Credits

Wester Casper & Mills
Census Tract 11
Total population: 2,941
Median household income: \$39,246
Households in poverty: 19%

Platte River Commons
Census Tract 8
Total population: 3,991
Median household income: \$48,980
Households in poverty: 12%



Execution – CDFA Plan

Continue to work with WY DEQ

Explore use of Tax Increment Financing (TIF)

Potential loan from WY DEQ Revolving Loan Fund

Explore New Market Tax Credits (NMTC)

Attract Opportunity Fund Investments

Attract Private Investment



Source: Casper Hotel & Conference Center – Roadmap to Redevelopment by CDFA



Questions

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Questions

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