Opportunity Zones – A New Gold Rush?

Sponsored by:

October 2019
1) Key elements to consider with respect to Commercial Real Estate investment and Opportunity Zones

2) Financial Example

3) Impacts of Opportunity Zone investment on CRE investors

4) Opportunity Zones throughout the State of Hawaii
KEY ELEMENTS TO OPPORTUNITY ZONE INVESTMENT

• If held, buyer receives a step-up in taxable basis increases of 10% after five years and by 15% after seven years.

• After 10 years, investors permanently eliminate capital gains from the appreciation of their opportunity zone investment.

• The new law clarifies that there is no gain deferral available with respect to any sale or exchange made after December 31, 2026, and there is no exclusion available for investments in qualified opportunity zones made after December 31, 2026.
FINANCIAL EXAMPLE

NOT IN OPPORTUNITY ZONE
• Sell business with $10M in capital gain
• Invest in standard investment over 10 years w/ 8% annual return
• $12M total net returns

IN OPPORTUNITY ZONE
• $18M total net returns
**Impact on CRE Investors**

“A bad project isn’t made good by the tax incentive. It does make a good project better.”

*Abran C. Villegas – Arizonam Bank & Trust*

- Not as advantageous for CRE investors but is advantageous for other asset classes
- Investor has 180 days to invest in Opportunity Zone.
- Ideal if 1031 exchange buyer misses 45 day identification window.
- Must invest 50% of the BUILDING VALUE into the property,
- Market is pricing in 3-4% increase in IRR over a 10-year hold.
  (To account for market risk)
OPPORTUNITY ZONE – RESULTS
01/01/2018 – 09/30/2019

Oahu’s Current Listings – 42
75 Sales Comparables

Current Selected Transactions

- Sold August 2019 - $4.5M ($3... Investment - Part of a 2 Property Sale
  91-0606 Kamohina St
  Kapolei, HI 96707 - Kapolei Business Park
  2.79 AC (111,663 SF) Industrial Land

- Sold August 2019 - $1.9M ($3... Investment
  1140 Smith St
  Honolulu, HI 96817
  5,420 SF Storefront Retail • Built 1981
  1031 Exchange

- Sold July 2019 - $3.8M ($696/... Owner User
  925 Aiea Ln
  Honolulu, HI 96817
  5,507 SF Warehouse

- Sold July 2019
  Investment - Part of a 3 Property Sale
  500 Kuwai St
  Honolulu, HI 96817 - Kuwaii Center
  197,869 SF Service • Built 1959

- Sold June 2019 - $1.1M ($191/... Investment - Part of a 2 Property Sale
  1723 Kalani St
  Honolulu, HI 96819 - Multi-Property Sale
  6 Units • Apartments • Built 1964

- Sold May 2019 - $27.5M ($50... Owner User
  925 Dillingham Blvd
  Honolulu, HI 96817
  54,956 SF Office • Built 1985
  Purchase By Tenant
OPPORTUNITY ZONE – RESULTS
01/01/2018 – 09/30/2019

Kauai’s Current Listings – None
1 Sales Comparable

Current Selected Transaction
OPPORTUNITY ZONE – RESULTS
01/01/2018 – 09/30/2019

Maui’s Current Listings – 11
17 Sales Comparables

Current Selected Transactions

Sold Sep 2019 · $1.6M (109/SF)
Owner User
Hana Hwy & Dairy Rd
Kahului, HI 96732 · Lot S-87
0.53 AC (22,869 SF) Commercial Land

Sold August 2019 · $1M (150/SF)
Investment
1727 Wilo Pa Loop
Wailuku, HI 96793
6,474 SF Office · Built 1992

Sold July 2019 · $1.3M (108/SF)
Investment
1878 Loke St
Wailuku, HI 96793
12 Units · Apartments · Built 1972

Sold May 2019 · $27.5M (810/SF)
Investment · Part of a 2 Prop
130 W Kaahumanu Ave
Kahului, HI 96732 · Maui Beach Hotel
147 Rooms · Hotel · Built 1968
Bulk/Portfolio Sale
OPPORTUNITY ZONE – RESULTS
01/01/2018 – 09/30/2019

Big Island’s Current Listings – 60
51 Sales Comparables

Current Selected Transactions

- **Sold Sep 2019 – $724.8K**
  - Investment • Part of a 2 Property Sale
  - 255-271 Keawa St
  - Hilo, HI 96720 • Multi-Property Sale
  - 8,929 SF Storefront Retail/Residential
  - Built 1941

- **Sold August 2019 – $1.6M**
  - 8% Cap Rate
  - 11 Silva St
  - Hilo, HI 96720 • 4,540 SF Retail • Built 1968

- **Sold July 2019 – $900K**
  - 7% Cap Rate • 84 Days on Market
  - 75-5757 Kalawa St
  - Kailua Kona, HI 96740 • Lokelani Apartments
  - 7 Units • Apartments • Built 1971
  - 1031 Exchange
ANECDOtal EVIDENCE FROM OUR CLIENTS

1. The large Opportunity Zone funds have big fees for the promoters. There is no control like Tenant In Common (TIC) Entities

2. Where does the money come from to pay your capital gains tax in 2026? Most funds are not withholding

3. Initial yield can be 150 – 200 basis points lower in an Opportunity Zone. Example: Preferred return reduced from 8 – 6% to investors because of tax incentives

4. Properties in the Opportunity Zone with a long term lease in-place? Doesn’t work
THANK YOU