

Opportunity Zones

Hawaii
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An affiliate of LISC

NMSc

New Markets Support Company



LISC
*Helping neighbors
build communities*

What are Opportunity Zones?

The Opportunity Zone tax incentive is a bipartisan initiative to spur long-term private investment in low-income urban and rural communities, established by Congress in the 2017 **Investing in Opportunities Act**.



U.S. investors currently hold \$2.3 trillion in unrealized capital gains, representing a significant untapped resource for economic development.

OPPORTUNITY ZONES

Why now?



Data from the Economic Innovation Group. Read more at eig.org/opportunityzones

More than half of America's most economically distressed communities contained both **fewer jobs and businesses in 2015 than they did in 2000.**

New business formation is near a record low. The average distressed community saw a **6 percent decline** in local businesses during the prime years of the national economic recovery.

The U.S. economy is increasingly dependent on a handful of places for growth. **Five metro areas** produced as many new businesses as the rest of the country combined from 2010 – 2014.

Now is the time to diversify.

ZONES

What are Opportunity Zones?

Opportunity Zone: A low-income census tract (**LIC**), as determined within New Markets Tax Credits legislation, is designated as an Opportunity Zone (**OZ**) by the governor of the state or territory in which it is located. Designations will stay in place for 10 years.

Up to 25% of LICs in a U.S. state or territory may be designated as OZs.

States or territories in which there are fewer than 100 LICs may designate up to 25 LICs as OZs.

Up to 5% of census tracts contiguous to LICs may be designated as OZs, if the median family income of the census tract does not exceed 125% of the median family income of the LIC to which the tract is contiguous.

Designated Opportunity Zones

8,762

census tracts designated



24 million

current jobs in designated tracts



1.6 million

businesses in designated tracts

Rural census tracts	1,858
Average poverty rate	31%
Average unemployment rate	14.4%
Average family income in OZ census tracts relative to area median income (AMI)	60%

LISC Activity in Opportunity Zones

924

number of Opportunity Zones where LISC, NEF and NMSC have made investments

10.5%

total number of census tracts designated by the states

36%

percentage of Opportunity Zones in LISC program markets accounted for in LISC's Quality of Life planning

LISC Deals in Opportunity Zones since 2008	638
NEF Deals in Opportunity Zones since 2008	178
NMSC Deals in Opportunity Zones since 2008	49

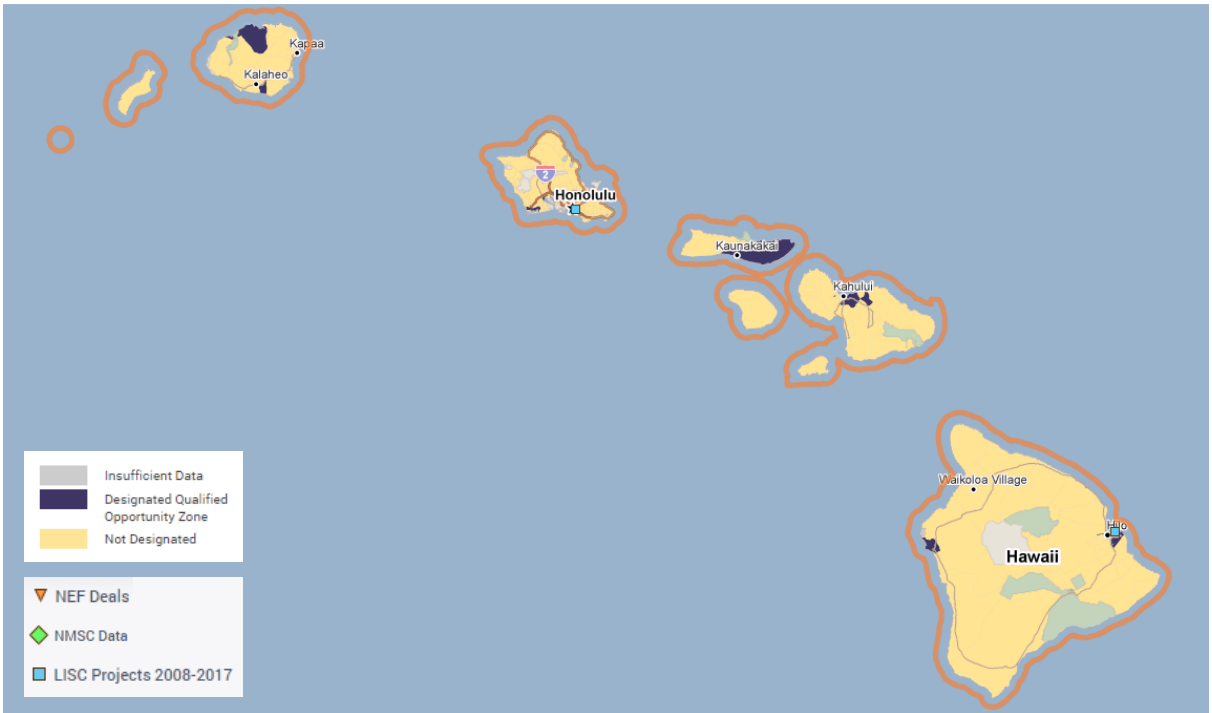
OPPORTUNITY ZONES

Hawaii Designations

25

census tracts designated

Rural census tracts	7
Average poverty rate	21.2%
Average unemployment rate	7.6%
Average family income in OZ census tracts relative to area median income (AMI)	64.2%



Definitions

Opportunity Fund: An investment vehicle organized as a corporation or partnership for the purpose of investing in Opportunity Zone property.

Opportunity Funds will be self-certified per IRS guidelines. They must be organized for the purpose of investing in Opportunity Zones

Opportunity Funds are required to invest 90% or more of their capital as EQUITY in Opportunity Zone property

Opportunity Zone property includes stock, partnership interest, or business property in an Opportunity Zone

OPPORTUNITY ZONES

Investor Incentives

Cancellation of taxes

Reduction of taxes

Deferral of taxes

On capital gains
invested in Qualified
Opportunity Zone Funds

On investments held in
Qualified Opportunity
Zone Funds 5+ years

On new gains made
through Qualified
Opportunity Zone Fund
investments held 10+ years

Key Points

Investors

- Tax incentive is most valuable for 10 year investments in appreciating assets
- Six months to invest after realizing a capital gain
- Another six months to deploy 90% of capital in Zones
- Capital is required to be an equity investment – loans from investors are not eligible for the tax incentive

Funds

- All capital must flow through an Opportunity Fund to be eligible for the tax incentive
- Funds are self-certified via an IRS tax form
- Fund must be established for the purpose of investing in Opportunity Zones
- 90% of fund assets must be invested in Zones to maximize the tax incentive

Eligible Investments

- Must be equity investments
- Real estate investments must include substantial rehabilitation – doubling basis within 30 months
- “Sin businesses” are not eligible
- Other requirements include property use in “active conduct of business” and limits on assets held in cash

Eligible Investments

Only equity investments are eligible for the Opportunity Zone tax incentive.

- 1 Business investments**
can include investments in new stock issuance for corporations and ownership interests in partnerships and LLCs.
- 2 Investments in real estate**
must include an ownership interest of new construction or assets that will be "**substantially improved**" within 30 months of acquisition by the Opportunity Fund.
- 3 New equipment and other assets**
are also eligible investments.

Strengths

Local

Designations are made by states and localities, rather than Federal agencies, ensuring more local buy in and coordination.

Flexible

The flexibility of the investment tool can support investments in any type of asset class.

New Investor Class

The incentive has the ability to attract high net worth individual investors to community development finance.

Potential

The incentive could attract hundreds of billions of private sector capital into low-income communities (compared with about \$10 - \$12 billion annually under LIHTC and \$3.5 billion annually under NMTC).

Straightforward

The tool is relatively straightforward from an investment and compliance standpoint, in comparison to LIHTC and NMTC.

Potential Concerns

Lack of Oversight

Lack of oversight from government entities could lead to program abuses.

Lack of Impact Incentives

Incentives focus on back-end returns, rather than investments that will result in community impacts.

Gentrification and Displacement

The tool might aid in the gentrification and displacement of residents and businesses in Opportunity Zone communities.

Future of Other Tax Incentives

The new incentive might be used as an excuse to diminish or eliminate other community development tax incentives, such as the NMTC program.

Economic Development Examples

1 Business infrastructure real estate funds:

- *Industrial*
- *Retail*
- *Mixed use*
- *TOD*

2 Venture capital funds:

- *Seed stage investments*
- *Series A investments*

3 Operating business private equity:

- *Equity recapitalizations*
- *Growth capital investments*

4 Enhancement for other federal tax credit transactions:

- *NMTCs*
- *Historic Tax Credits*

Affordable Housing Examples

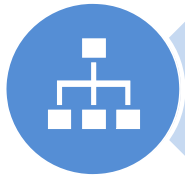
1 Pairing with LIHTC or the HTC

- Effective for providing housing for families at or under 60% AMI
- Issues: Do institutional investors have capital gains that they want to use to invest in the LIHTC?

2 Focus on Workforce Housing

- Providing Housing for families at 80 – 100% AMI
- Anticipate a 10 year investment
- No ongoing compliance regulations unless required through local funding or zoning
- Ability to attract High Net Worth Individuals or Corporations as investors

LISC's Roles



Fund Management



Service Provider



Financing



Industry Leadership

Guidance Requested: **Questions for the IRS**

1. Does Affordable Housing qualify for Qualified Opportunity Zone Investing?

- Do the businesses of (1) developing affordable housing, and (2) renting affordable housing qualify as “the active conduct” of a business per the definition of a QOZ business?

2. What type of gains are eligible for Reinvestment and Deferral?

- Do they have to be Capital Gains? Or do Ordinary Gains work as well?
- Short term and Long Term Capital Gains?

3. What does the statute mean by “Substantially All”?

- Qualified Opportunity Zone partnerships and corporations must qualify as a QOZ business for “substantially all” of the qualified opportunity fund’s holding period.
- QOZ business is one in which “substantially all” of the tangible property owned or leased is a QOZ business property.

Guidance Requested: **Questions for the IRS**

4. How will the IRS determine whether 90% of assets are invested in qualifying activities?

- Will the IRS offer a wind-up period (e.g., one year) before they analyze whether a O-Fund has satisfied its 90% test?
- Will the IRS permit funds that are committed to projects but not yet invested to qualify as part of the 90% test?
- Will Opportunity Funds be able to reinvest proceeds without triggering a tax event?

5. What data points will Opportunity Funds be required to collect and report to the Treasury Department with respect to the use of funds?



Opportunity Zones: **What's Next**

1. **Treasury expected to publish regulations and additional guidance by the end of September.**
2. **We expect to see a number of Opportunity Zone Funds with a variety of products by the end of the year.**
3. **What will be built? What is the social impact? There is much to be determined from a community development perspective.**

OPPORTUNITY ZONES

Resources and Tools

lisc.org/opportunityzones

Visit [NMSC's Opportunity Zones pages](#) for:

- A [mapping tool](#) of designated census tracts
- Federal and state [government resources](#) and updates
- [LISC and partner resources](#), including presentations and webinar recordings
- Opportunity Zones and Opportunity Funds [FAQ](#)
- A sign-up form for our Opportunity Zones [email updates](#)

Other Opportunity Zones resources:

- The [Investing in Opportunity Act](#)
- Community Development Financial Institutions [\(CDFI\) Fund Opportunity Zones updates](#) and resources
- Economic Innovation Group [\(EIG\) Opportunity Zones pages](#) for related news, background information, and a list of bipartisan supporters

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