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OZ Financing for Innovation and Local Economic Development

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Agenda

This session explores how OZ financing can work across a range of innovation and economic development project types, with a focus on capital structure and equity fit.

01

Background & Key OZ Terms

How OZ financing works and where it fits within the cap stack – and investor portfolios

02

Project-First Approach to OZ 2.0

Why Hawaii *should* focus on a range of project typologies as we prepare for OZ 2.0

03

Project Types Overview

A review of six distinct asset classes with distinct capital needs, risks, and opportunities

04

Discussion

- Open conversation on investor trade-offs, risk tolerance, and return expectations for tax deferral-motivated investors
- Q&A conversation on structuring, state strategy, and implications for Hawaii and similar markets

Preview: Target Project Types

Advanced Manufacturing

Large-scale industrial facilities requiring long-duration sponsor-risk capital and gap equity.

Film Studios

Campus-scale production facilities where OZ equity fills gaps and enables phased development.

Creative Lab / Innovation Hub

University-anchored or mission-driven spaces needing patient capital and blended financing.

Food Innovation

Shared kitchen and processing facilities with complex cash flows requiring flexible equity.

Hotel

Economic development catalyst projects with long stabilization timelines and J-curve profiles.

Broadband

Horizontal infrastructure investments layered with public grants and platform-level equity.

Background

- **Mission-driven economic development projects typically use non-traditional financing:** subsidy, public and philanthropic grants, program-related-investments, NMTCs, P3s, university affiliations, etc.
- **OZ financing is equity and cannot be reinvested as debt.** It requires a 10-year hold for the investor to avoid being taxed on appreciation.
- **But there are no requirements on the terms of the equity.** Friendly investors or impact investors can accept below-market terms.
- **A dedicated QOF could be established to source capital specifically for a deal with terms aligned to a concessionary project with high economic impact.** Public sector, EDCs, philanthropy, universities etc. could be involved in raising capital for this mission-aligned QOF.

Stacking OZs With Other Tools

- **NMTC structures** may require OZ equity to sit outside the tax credit entity — both can still work together.
- Projects with limited cashflow **(e.g., LIHTC projects)** are challenging for QOFs, but OZ equity can fill gaps in commercial or market-rate components alongside the housing.
- **Innovation spaces** with unpredictable early cashflow can use OZ equity to reduce project debt and lower early-stage risk.

Innovation Space Structures: **P3, Leaseback, Ground Lease, Master Developer Structure, Innovation District, Adaptive Reuse**

Common complementary tools: **NMTC, EDA grants, HUD 108, TIF, C-PACE, philanthropic PRIs and MRIs, credit enhancements**

OZ tax incentives (e.g., tax deferral, permanent exclusion on OZ investment gains after 10 years) drive investor upside in projects of all return profiles

OZ equity can reduce debt service burden — improving project economics in markets where traditional lenders won't go without subsidy

Key OZ Terms: What Qualifies and How It Works

Fund & Transaction-Level Tests

- **Fund / QOF level:** Must maintain ≥90% of assets in qualified OZ property (measured semi-annually).
- **Transaction / QOZB level:** ≥70% of tangible property must be QOZBP. Active trade or business required — rental real estate qualifies.

Qualified OZ Business Property (QOZBP)

Tangible property — buildings, equipment, machinery — used in a **trade or business** within a Qualified Opportunity Zone, acquired by purchase from an unrelated party. Must satisfy either:

- **Original use:** new construction where use begins with the QOZB, or
- **Substantial improvement:** building basis doubled within ~30 months of acquisition.

Rural OZs: The substantial improvement test is reduced from ~100% to ~50% of building basis — a significant advantage for rural projects.

Critical Structural Rules

Investment Must Be Equity

OZ capital enters as equity — never as debt. This shapes every deal structure.

31-Month Safe Harbor

Working capital safe harbor allows staged deployment with a written plan and deployment schedule.

10-Year Hold

Investors must hold for 10+ years to eliminate capital gains tax on appreciation — the primary investor benefit.

Substantial Improvement Timing

Capital must be deployed over a 30-month window beginning after acquisition of the property.

Investor Return Expectations: Tax-Motivated vs. Impact Capital

Tax-Motivated Investors

*These investors enter OZ funds primarily to **defer and eliminate capital gains taxes**. Their underwriting priorities are:*

- **Capital preservation:** Protecting the original invested amount
- **Appreciation:** Long-term value growth over 10+ years, which is realized tax-free
- **Equity risk tolerance:** Will accept equity-level risk only with *adequate upside* — not for nominal returns
- **Cash flow patience:** Comfortable with limited early distributions if appreciation story is compelling
- **Typical target:** 1.5x–2.5x equity multiple over 10 years (10–12% IRR equivalent) for market-rate deals

Impact / Mission-Aligned Investors

Impact investors — including public entities, EDCs, philanthropies, and universities — can accept **below-market return requirements** in exchange for measurable economic development outcomes:

- **Concessionary returns:** 4–6% IRR, with priority placed on community impact metrics
- **First-loss position:** Willing to absorb initial losses to de-risk the deal for other investors
- **Patient capital:** Long hold periods aligned with mission and place-based objectives
- **Dedicated QOF:** A mission-aligned fund can combine both types of capital, with impact investors protecting tax-motivated investors through structured subordination

Best-fit play: Pairing tax-motivated capital (seeking appreciation) with impact capital (absorbing early risk) in a single QOF is the structural innovation that makes mission-driven OZ deals viable.

Case Study: High-Impact SRI OZ Fund

The OPAL Fund I is a ~$19M QOZ invested in six deals across Alabama – with total a capitalization at $220M+ (2025). The fund has built over 800+ housing units and 700+ rentable sq ft of new development.

Located along the I-85 industrial corridor between the largest Hyundai and Kia manufacturing facilities in North America, “R.E.A.L” Park is a transformative, multi-phased 640 acre industrial development. OPAL Fund is the lead equity investor in the 168k RSF industrial spec building within the Park, which is projected to bring 100+ jobs to a historically under-served community.

Anthem House is a $100M+ new construction mixed-use development that will bring over 300 units of housing at accessible price points and 67,000 SF of commercial space to MidCity, a multi-phase development project on a formerly abandoned mall site in northwest Huntsville. OPAL Fund is partnering with a large national OZ investor to provide the equity for the project.

Market Lofts on 3rd is an adaptive reuse of Birmingham’s American Red Cross building into 192 units of workforce housing and 4,000 RSF of retail space, led by a woman-owned general contractor and with 35%+ MWBE participation on the project. 100% of units are priced as “workforce housing” (affordable at 80-120% of AMI), made possible through state and federal Historic Tax Credits. OPAL is the lead equity investor in the deal.

Source: Fund I — OPAL Fund

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Advanced Manufacturing

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Advanced Manufacturing

Advanced manufacturing is a broad category that refers to a variety of products, processes, and facility needs in respond to the business requirements

Key Development Considerations

- Availability of large, development-ready land
- Access to power, freight, transportation networks, and port/rail connectivity
- Availability of trained labor and workforce development programs
- State and local cash incentives, tax credits, abatements, and infrastructure support
- Design is driven by process requirements rather than generic industrial standards.

Examples within the Adv. Manufacturing Category:

- Semiconductor fabrication
- Electric vehicle (EV) and battery
- Biopharmaceutical / biologics manufacturing
- Aerospace component manufacturing
- Robotics and automated assembly lines
- Advanced materials production (composites, carbon fiber, alloys)
- Precision machining and laser-based fabrication
- Medical device manufacturing (implants, diagnostics)
- Nanotechnology manufacturing

OZ Equity Fit

*OZ equity serves as **gap equity** and **long-duration sponsor-risk capital***

Advanced Manufacturing: Typical Capital Sources

- **Equity** — sponsor, institutional, or strategic investor capital
- **Senior debt** — construction and permanent loans
- **Project capital** — offtake agreements, pre-sales
- **Public incentives** — tax abatements, tax credits, grants, bond financing, infrastructure support, and workforce funding, production credits where applicable
- **New Markets Tax Credits (NMTC)** for eligible census tracts

Advanced Manufacturing: PropCo / OpCo Structure

Advanced manufacturing is **one of the clearest examples where OZ equity can finance both the real estate and the operating business** — potentially through two separate QOZBs structured in parallel.

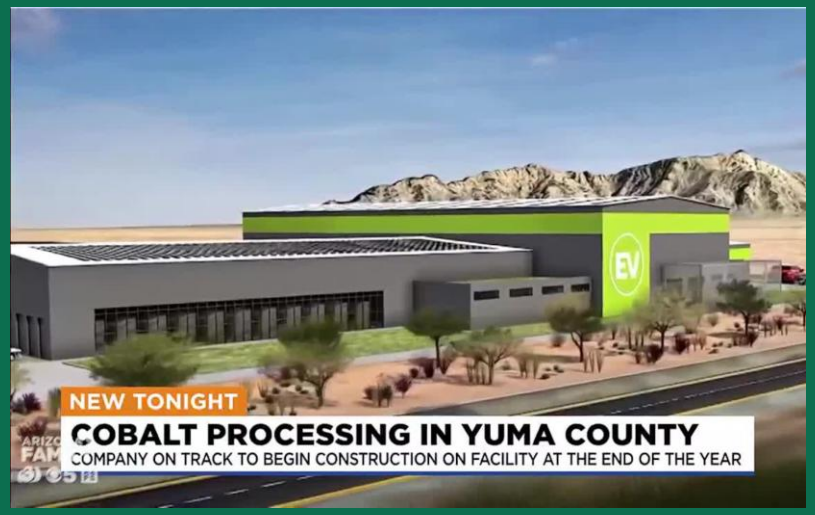
PropCo — OZ Real Estate Entity

- Holds **OZ-qualified property**: land, building, core infrastructure
- Generates **stable lease or use income** from the operating business
- Designed to meet **qualified business property and substantial improvement tests**
- Investors benefit from long-term asset appreciation with limited operational exposure

OpCo — Operating Manufacturing Business

- Runs **advanced manufacturing operations**: production, workforce, revenue generation
- May also be structured as a **QOZB**, allowing OZ equity to flow into the operating entity
- Often kept separate to **isolate operational risk** and maintain flexibility for non-OZ investors or partners
- Particularly valuable for attracting **strategic co-investors** with different return requirements

EVelution Energy: Cobalt Processing Facility, Arizona



OZ Role in the Deal

OZ equity is part of the capital stack supporting development costs — providing long-duration, patient capital aligned with the project's multi-year buildout and ramp-up timeline.

Project Overview

- **Type:** Advanced materials / battery supply chain (EV-related)
- **Scale:** ~$300M+ industrial facility
- **Use:** First domestic cobalt processing plant in the United States
- **Location:** Sited within a designated Opportunity Zone

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Film Studios

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Film Studio

Film studio campuses are campus-scale industrial real estate assets requiring significant specialized infrastructure — their economics are uniquely tied to public incentive environments, anchor tenants, and production demand.

Project Components (Typically 20–100 Acres)

- Sound stages
- Backlots and exterior shooting areas
- Production offices and post-production space
- Set construction shops, storage, and workshops
- High-capacity electrical and power infrastructure

Business Models

- **Owner-operator:** Developer builds and manages the studio
- **Lease model:** Long-term anchor lease to a streamer
- **Hybrid campus:** Anchor tenant plus short-term production rentals

What Makes a Studio Deal "Pencil"

Incentive Environment

Public financing and incentives determines demand for productions. Directly impacts utilization and NOI.

Anchor Tenants

Long-term leases reduce risk and unlock construction debt from institutional lenders.

Scale & Utilization

High throughput and purpose-built stages improve long-term ROI and justify high capex.

Capital Stack Optimization

Blending public capital, C-PACE, and tax credits to reduce weighted cost of capital.

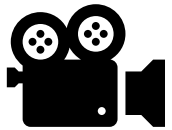
Film Studio

Core Capital Stack

- **Private equity** — developer/fund sponsors and media company strategic investors
- **Senior debt** — commercial banks or institutional lenders, underwritten to pre-leasing and incentive-backed revenue
- **Film tax credits / production incentives** — often the critical differentiator (state rebates of 15–55% of in-state spend)
- **C-PACE financing** — long-term, tax-assessed debt for energy efficiency improvements
- **Public-private partnerships (P3s)** — tax abatements, infrastructure, land contributions

Role of OZ Equity

- **Fills the equity gap** between senior debt capacity and total development cost
- **Reduces cost of capital** by replacing higher-return private equity
- **Provides patient, long-term capital** aligned with ~10-year studio hold periods
- **Enables partially speculative development** where full pre-leasing is not feasible
- **Supports early-stage development risk** during pre-leasing and ramp-up phases
- **Improves feasibility** for markets that would otherwise not pencil



Upside: Strong appreciation potential if location becomes a production hub, especially with a major anchor.

Case Study

Netflix — Albuquerque, New Mexico

One of the clearest public-sector-led economic development cases in film infrastructure.

- Netflix expanded its Albuquerque campus from ~28 to over **100 acres** with new soundstages, production facilities, and backlots
- Supported by **LEDA funding** from the state, in-kind infrastructure support, and ongoing production tax credits
- Documented outcomes: thousands of construction and ongoing production jobs, hundreds of millions in total regional investment

Brooklyn Film Studios — New York City

Infrastructure plus innovative financing: vertical layering of the capital stack.

- Two new studio developments totaling **600,000+ SF**, financed with **$156M in C-PACE loans**
- Include soundstages, post-production, and support space
- Designed to meet aggressive **energy efficiency standards**

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Creative Lab

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Creative Lab / Innovation Hub

Creative labs and innovation hubs are purpose-built environments for entrepreneurs, researchers, and startups — combining lab space, co-working, shared equipment, and mentorship. The goal is not just to lease space, but to create a place where universities, industry, investors, and founders can connect and commercialize ideas.

Models & Physical Formats

- **Early-stage incubator:** Flexible lab/office space plus mentorship programming
- **University-affiliated hub:** Commercialization, industry partnerships, sponsored research
- **Independent nonprofit or hybrid:** Community and job-creation objectives, sometimes with accelerators or specialized lab programming

Typical Funding Sources

- Public finance and educational institution contributions
- Philanthropic support: grants, PRIs, and MRIs
- New Markets Tax Credits (NMTC)
- P3 structures and leaseback arrangements
- EDA grants and HUD 108

OZ Equity Fit

OZ fits where the project is **place-based, mission-aligned, and needs patient capital** to support lab build-out, shared equipment, or mixed-return programming. Tenant companies separately raise their own capital — the hub's value proposition is reducing early infrastructure burden for startups.

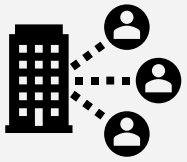
- **Risk Tolerance:** Medium — long stabilization period, unpredictable cash flows; mission-aligned QOF sponsors can absorb this.
- **Upside:** Moderate appreciation; primary value is portfolio company creation and ecosystem development, not asset appreciation.

Innovation Hub Financing: Structures That Work

Unlike conventional real estate, innovation hubs are sited based on proximity to anchor institutions, talent, and amenities — and require financing structures that accommodate long ramp-up periods and mission constraints. The following structures have proven effective.

P3 Structure

Public-private partnership where a university or municipality contributes land, infrastructure, or long-term lease guarantees. OZ equity fills the private capital gap alongside anchor institutional support.



Leaseback Arrangement

Developer builds and owns the facility; the anchor institution (university, hospital, or government) leases it back under a long-term agreement. OZ equity benefits from stable lease income and long-term appreciation.

NMTC + OZ Stack

NMTC provides below-market debt while OZ equity sits outside the NMTC structure. Together they can dramatically reduce project costs and improve feasibility for below-market rents needed to support early-stage companies.

Key Insight: *Innovation hubs generate economic value through ecosystem effects — job creation, company formation, and workforce development — not just NOI. Mission-aligned OZ investors should underwrite to these broader outcomes, not just asset appreciation.*

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Food Innovation Facilities

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Food Innovation Facilities

Food innovation facilities are **collaborative production and commercialization assets** built around shared commercial kitchens, processing space, product testing, distribution, and food-related R&D. They pursue a dual mission: supporting early-stage food businesses and advancing local economic development, supply-chain resilience, or food-access outcomes.

Typical Components

- Shared commercial kitchens and pilot production space
- Testing, product development, and food R&D facilities
- Distribution, food-hub, and aggregation functions
- Food halls, greenhouses, and retail in some cases

Capital Stack

- Commercial debt (where feasible)
- State, federal, and foundation grants
- Donations and in-kind contributions
- New Markets Tax Credits (NMTC)
- Conventional project financing for stabilized components

Business Model Challenges

- **Expensive specialized equipment** with uncertain utilization
- **Spec development** — space often built before tenants are identified
- **Numerous small tenants** rather than a single master lease
- **Mission pressure** to keep access costs low and barriers to entry minimal
- Grants often **reimburse after costs** — creating cash-flow timing gaps

OZ Fit: Patient equity sitting alongside grants and below-market public support. Potentially reduces debt service, improving project economics especially during early-stage high-vacancy periods.
Return Expectations: Impact investors may accept 0% IRR. Tax-motivated investors need appreciation potential from eventual stabilization or mixed-use components.
Risk: High — suitable for mission-aligned QOFs with philanthropic or public co-sponsors.

Food Hall Case Study: City Foundry (St. Louis, MO)

Project Overview

- **TDC:** $230 million / **Project IRR:** 14% over 10-year hold period
- **Location:** St. Louis, Missouri
- **Project Type:** Mixed-use redevelopment of a historic industrial brownfield site into a destination featuring food hall, office, retail, entertainment, dining, and nonprofit space.

While the developer had secured historic tax credits and debt commitments, available equity was insufficient to close the capital stack.

Role of OZ Equity

As gap funding, Opportunity Zone (OZ) equity played a critical role in enabling the project to move forward.

- The developer engaged CliftonLarsonAllen Wealth Advisors to raise OZ capital.
- OZ investors contributed **$50 million** of equity.
- OZ capital filled a substantial portion of the project's funding needs and reduced reliance on debt financing.
- The additional equity strengthened the project's financial structure and improved its ability to withstand market volatility.

Food Hall Case Study: City Foundry (St. Louis, MO)

City Foundry - Capital Stack	
Source of Capital	**Amount**
Opportunity Zone Equity	$50 million
Sponsor Equity	$10 million
Historic Tax Credit Equity	$40 million
Debt Financing	$130 million
Total Project Cost	**$230 million**

→ **OZ Equity Contribution:** Approximately **22% of total project cost**.

Outcome

- The capital stack was de-risked through the addition of OZ equity.
- The project has a projected **14% IRR over a 10-year hold period**.
- City Foundry STL became one of the more prominent examples of OZ capital supporting a large-scale urban redevelopment project in a secondary market.

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Hotel Development

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Hotel Development

Hotels are among the most **equity-intensive real estate asset classes** — requiring higher equity contributions, tolerating J-curve cash flow profiles, and demanding patient capital through 2–4 year stabilization periods. These characteristics make them a natural fit for OZ equity.

Core Capital Stack

- **Senior debt** — 50–65% of total development cost; construction loans refinanced into permanent debt at stabilization
- **Mezzanine debt or preferred equity** — 5–20% of cost; higher cost of capital, structured for priority returns
- **Sponsor and institutional equity** — 20–35% of cost, driven by stabilization and exit
- **Public incentives** — tax abatements, TIF financing, grants, or infrastructure support for economic development catalysts

Key Characteristics

- **Revenue volatility:** Nightly occupancy vs. long-term leases — more sensitive to economic cycles
- **Stabilization period:** 2–4 years of limited or negative cash flow
- **Operational complexity:** Franchise/management agreements materially impact performance
- **Equity intensity:** Lenders require conservative leverage due to operational risk

Why Hotels Align Well With OZ Equity

- **Ground-up orientation:** OZ strongly favors new development; hotels meet this standard
- **Long-term hold:** Hotels create value through lease-up, brand stabilization, and operational improvements — well-matched to 10+ year hold
- **J-curve tolerance:** OZ investors focused on long-term appreciation, not near-term yield, are well-suited to early ramp-up periods
- **Economic development impact:** Tourism, job creation, and district revitalization align with place-based OZ objectives

Return Expectations: Tax-motivated investors seek capital preservation and back-ended appreciation. Impact hotel funds may accept zero to low IRR with public co-investment.
OZ Equity Share: Typically 10–25% of total development cost, replacing higher-cost mezzanine capital.
Upside: Strong in adaptive reuse and rural markets with reduced improvement tests.

Hotels With an Economic Development Mission

OZ equity is especially powerful for **mission-driven hotel projects** in markets where traditional economics don't pencil — replacing high-cost debt with patient, concessionary capital.

Adaptive Reuse Advantage

For adaptive reuse projects — converting historic buildings, former industrial sites, or underutilized structures — **rural OZ locations benefit from a lower capital improvement test** (~50% of basis vs. 100%), reducing the investment hurdle for qualifying the project.

Weaker Submarket Strategy

In markets where traditional hotel economics don't support market-rate debt financing, **replacing a portion of debt with patient OZ equity** reduces debt service and makes the project viable. This is especially relevant for emerging tourism destinations or secondary cities with limited comparable hospitality supply.

Mission-Aligned QOF Structure

A **QOF sponsored by a public entity, EDC, or philanthropic organization** can provide OZ equity with below-market return requirements — filling the subsidy gap alongside tax abatements, TIF, or infrastructure grants to bring the deal to viability without over-leveraging the project.

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Broadband Infrastructure

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Broadband Infrastructure

OZ Qualification Considerations

Broadband represents a distinct category of OZ investment — **horizontal infrastructure** rather than vertical real estate. The key questions are: what broadband investments qualify under OZ rules, and what is the advantage of financing with OZ equity from an economic development standpoint?

A QOZB engaged in broadband must ensure that **≥70% of its tangible property** is Qualified Opportunity Zone Business Property (QOZBP). This means:

- Fiber and network equipment physically located within OZ census tracts qualifies
- The business entity must be structured as an **active trade or business** within the zone
- Working capital safe harbor supports phased network deployment over 31 months

Why Broadband Aligns With OZ Equity

- **Long-term horizon:** Value realized over years through network build-out and subscriber growth
- **J-curve tolerance:** Limited or negative early cash flow — OZ equity's long-duration focus absorbs this well
- **Scalability:** OZ capital deployed at platform level can scale across multiple geographies
- **Gap-filling role:** Heavy reliance on grants leaves equity

Return Expectations: Infrastructure/impact investors target 0% IRR on a platform basis. Tax-motivated investors seek long-term appreciation from network subscriber growth.
Risk: Revenue driven by take rates — requires conservative underwriting. Best suited to mission-aligned or impact-first OZ investors.

- Hawaii has already been **awarded $149 million of BEAD funding**
- There is expected to be additional non-deployment funding available – exact amount and use restrictions are TBD (pending NTIA non-deployment guidance).

Broadband Capital Stack & OZ Role

Core Capital Stack Components

Grants (Public Funding)

The largest component in rural markets. **BEAD** and other federal/state programs can cover a majority of total project costs.

Senior Debt

Provided by commercial banks, infrastructure lenders, or CDFIs. Underwritten to projected subscriber revenues with conservative adoption assumptions.

Equity (Including OZ)

Infrastructure funds, strategic telecom investors, and private equity. OZ equity typically represents 10–15% of total capital — modest but critical for enabling projects to proceed.

Subordinate / Gap Capital

Mezzanine debt, preferred equity, or public loan programs used selectively when grants and senior debt are insufficient.

Key Characteristics of Broadband Financing

- **Heavy public funding reliance:** Particularly in low-density rural areas — grants are essential
- **Platform-based structure:** Investments typically structured at the operating company (ISP) level, not single-asset transactions
- **Revenue driven by subscriber adoption:** Higher uncertainty than contracted real estate cash flows
- **Phased deployment:** Backbone/middle-mile first, then last-mile — financing must accommodate multi-year buildout
- **Long-term value orientation:** Network value realized over time — patient capital essential

Concept: The Community Broadband Utility

Strategic Goal

Enable broadband infrastructure expansion by financing fiber deployment and provider working capital needs, reducing provider risk and supporting more affordable broadband services for ratepayers.

Capital Deployment Strategy

- QOZB uses OZ equity to finance installation of new fiber only within OZ census tracts.
- OZ equity can also be used for other real estate investments within the OZs.
- A business QOZB entity set up as the broadband provider only within these census tracts uses OZ equity to finance its operating business.

Alternative: If the fiber already exists, only finance the broadband provider with OZ equity and they lease the fiber within the OZ tract/tracts.

Advantage: Use patient 10-year hold equity to reduce reliance on debt, fill capital gaps, and provide predictability around investment repayment.

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OZ/Asset Comparison

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Cross-Asset Comparison: Where OZ Equity Fits Best

Each project type has distinct equity needs, return requirements, and risk profiles. Understanding these differences can help inform how to structure OZ investments that both attract capital and achieve economic development goals.

Note: This is a conceptual, order-of-magnitude deal-type comparison for informational purposes only:

Asset Type	Equity Needed	Typical OZ Share	IRR Range	Risk Tolerance	Key OZ Advantage
Advanced Manufacturing	20–35% TDC	10–20%	8–14% IRR	Medium — PropCo/OpCo split manages risk	Long-duration sponsor risk capital; policy alignment
Film Studios	25–40% TDC	10–25%	9–13% IRR	Medium — reduces with anchor tenant	Patient capital for speculative pre-leasing phases
Creative Lab / Innovation Hub	15–30% TDC	15–25%	4–8% IRR (impact)	High — unpredictable early cash flow	Reduces debt, enables below-market rents
Food Innovation	15–25% TDC	10–20%	4–10% IRR (impact)	High — spec, mission-constrained pricing	Eliminates debt service in early vacancy periods
Hotel	20–35% TDC	10–25%	8–12% IRR	Medium — J-curve but defined stabilization	Replaces mezzanine; patient through ramp-up
Broadband	10–20% TDC	10–15%	6–10% IRR	Medium-High — subscriber risk	Platform-level gap fill; complements grants

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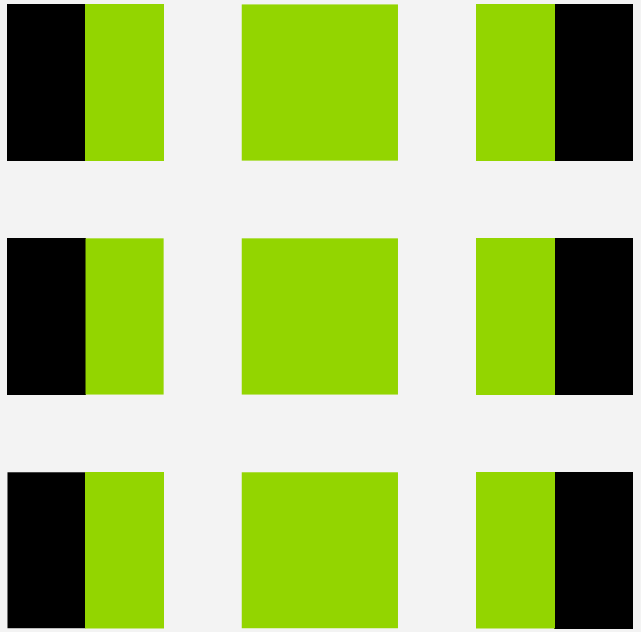
Discussion



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