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School of Business

The UNT Dallas Urban SERCH Institute Opportunity Zone Forum

Tuesday, October 15, 2019

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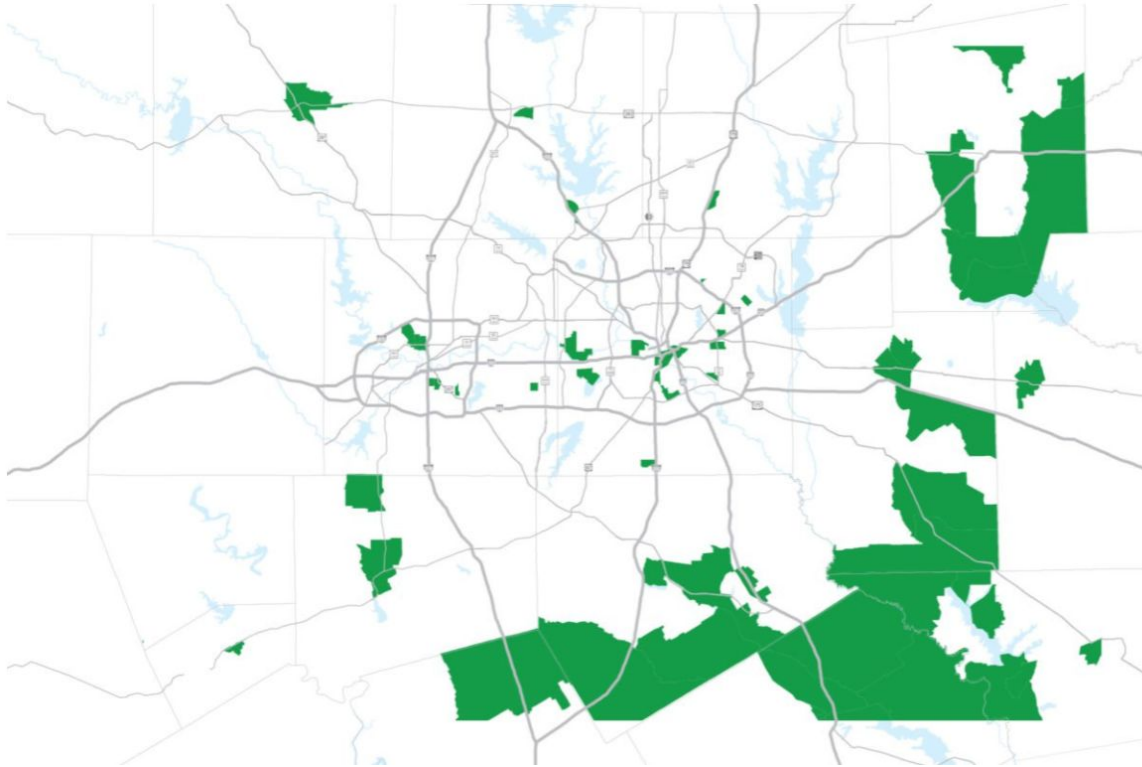
Opportunity Zone Overview

- ❖ Opportunity Zones are targeted community development areas designated by each State. Created under the 2017 Tax Cuts and Jobs Act, these zones are designated to attract private investment in community projects that drive considerable financial returns.
- ❖ Qualified Opportunity Zone Funds invest capital gains from private investors into real estate and business-related projects in Opportunity Zones.
- ❖ Tax preferential treatment is provided for investing in Opportunity Zone Funds. Opportunity Zone Funds are simple to form and can invest anywhere in the US.
- ❖ It is estimated that there is \$6 trillion in “unrealized capital gains” that could be incentivized and activated by this provision in the Tax Bill.

Texas Counties with Most Opportunity Zones

| County Name | Number of OZs | Percent of Total |
|-------------|---------------|------------------|
| Harris | 105 | 16.7 |
| Bexar | 24 | 3.8 |
| Hidalgo | 23 | 3.7 |
| Travis | 21 | 3.3 |
| Dallas | 18 | 2.9 |

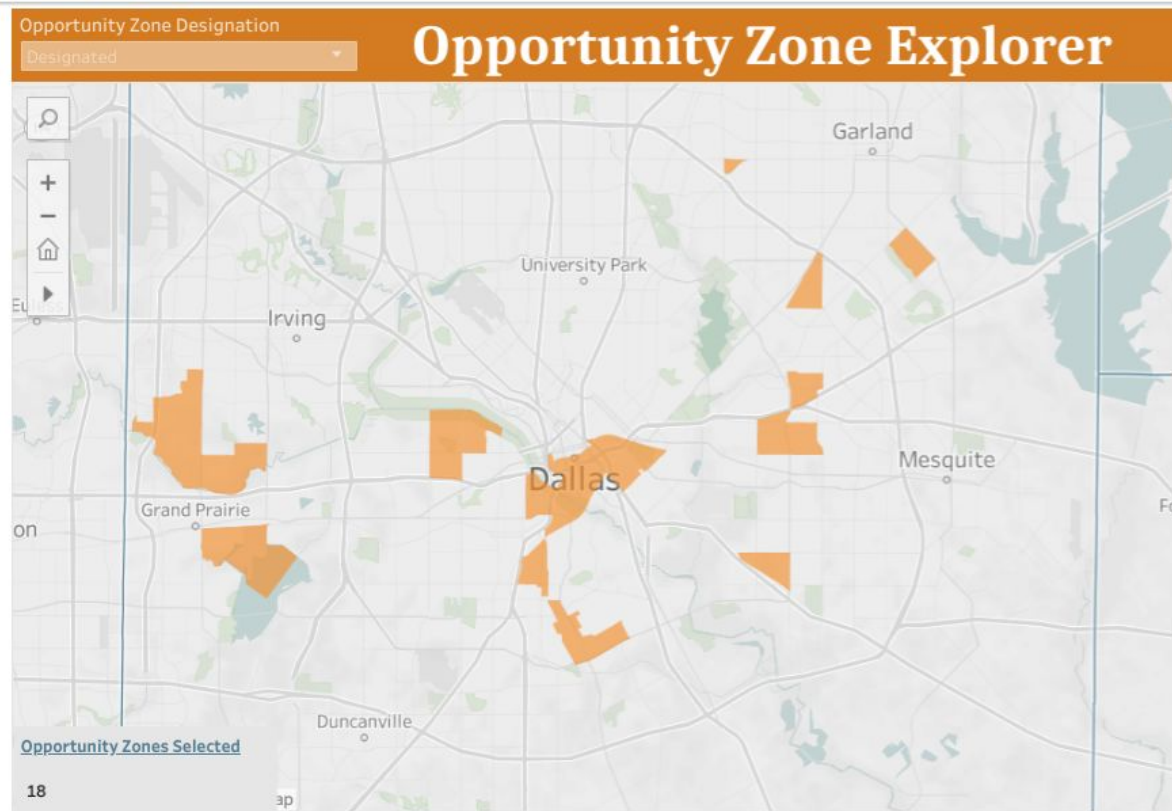
North Texas Opportunity Zones



of Opportunity Zones

- National - 8700
- Texas - 628
- North Texas - 52

Dallas Opportunity Zones



of Dallas Opportunity Zones 18

Source: <https://www.enterprisecommunity.org/opportunity360/opportunity-zone-eligibility-tool>

Opportunity Zones in Dallas County

8.4%

Percentage of Dallas MSA's commercial assets in Opportunity Zones

5.8%

Percentage of total commercial investments within Opportunity Zones

117%

Largest year-over-year change in 12-month rolling average value of sales in Opportunity Zones

Opportunity Zone

- ❖ Capital gain from any investment
- ❖ Property must be in Opportunity Zone
- ❖ Only invest the capital gain (all or part)
- ❖ No tracing and no intermediary required
- ❖ Existing property - substantial improvement required
- ❖ Allows deferral only to sale or 10 years (max 2047)
- ❖ Up to 15% basis step up on original investment
- ❖ Exclusion of appreciation of gain while in fund



Opportunity Zone Investment Benefits

- Investors who reinvest capital gains in a qualified Opportunity Fund by Dec. 31, 2019, can defer paying capital gains tax for those earnings until April 2027.
- Investors who hold their Opportunity Fund investments for at least five years prior to Dec. 31, 2026, reduce their liability on the deferred capital gain principal by 10 percent.
- If their investments are held for seven years prior to December 31 2026, that reduction is increased to 15 percent.
- Investors who hold their Opportunity Fund investment for at least 10 years will pay no capital gains taxes on any appreciation in their Opportunity Fund investment.

Example

CIRCUMSTANCES

On August 15, 2019, taxpayer sells stock with a basis of \$1,000,000 to unrelated third party for \$2,000,000 resulting in a capital gain of \$1,000,000

- ❖ Instead of paying the \$200,000 (20% tax rate) in federal capital gains tax, the taxpayer invests \$1,000,000 in an QOF
- ❖ Taxpayer sells his investment in the QOF after August 15, 2029 for \$2,000,000

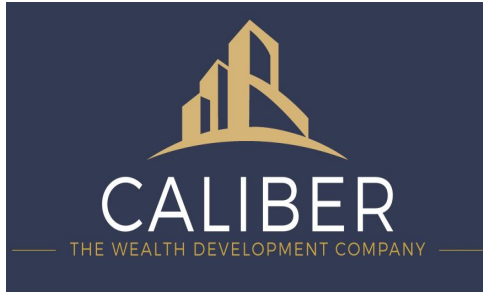
- ❖ Taxpayer defers paying tax until 2026
- ❖ Tax due is \$170,000 (tax basis of \$150,000 (15%)) - held more than 7 years
- ❖ No additional tax due on the \$1,000,000 in the capital gains on the O-Zone investment - held more than 10 years

RESULTS

Qualified Opportunity Fund (QOF)

- ❖ Normal business entities - partnerships, corporations, or LLCs
- ❖ Self-certified through Form 8996 and can be created by the taxpayer or you can invest in an established QOF - all investment must be through QOFs
- ❖ Can acquire two types of Opportunity Zone property:
 - Tangible property such as building, land and equipment
 - Opportunity Zone stock or partnership interests in domestic operating business
- ❖ QOF cannot invest in another QOF (no tiers)
- ❖ Most funds are creating a pipeline, finding the properties/businesses first, then selling to generate capital gain and start clock
- ❖ The 90% test applies - the average of the QOZ property at six months and year-end

Who's Already Playing?



Caliber – The Wealth Management Co. announced its \$500 Million Tax Reduction Opportunity Fund



Father & Son launch \$450 Million Opportunity Fund - [Propel Opportunity Fund Inc.](#) HQ'd in Macon, GA



Fundrise, the crowdfunding startup, launches \$500M Opportunity Zones fund



Anthony Scaramucci Leads Burst in Raising Capital for New Opportunity Zone Funds.

A Venture Capital Twist



The Pearl Fund is the first Venture Capital fund designed to generate high venture returns that will be completely tax-free to investors via the Opportunity Zone tax laws.

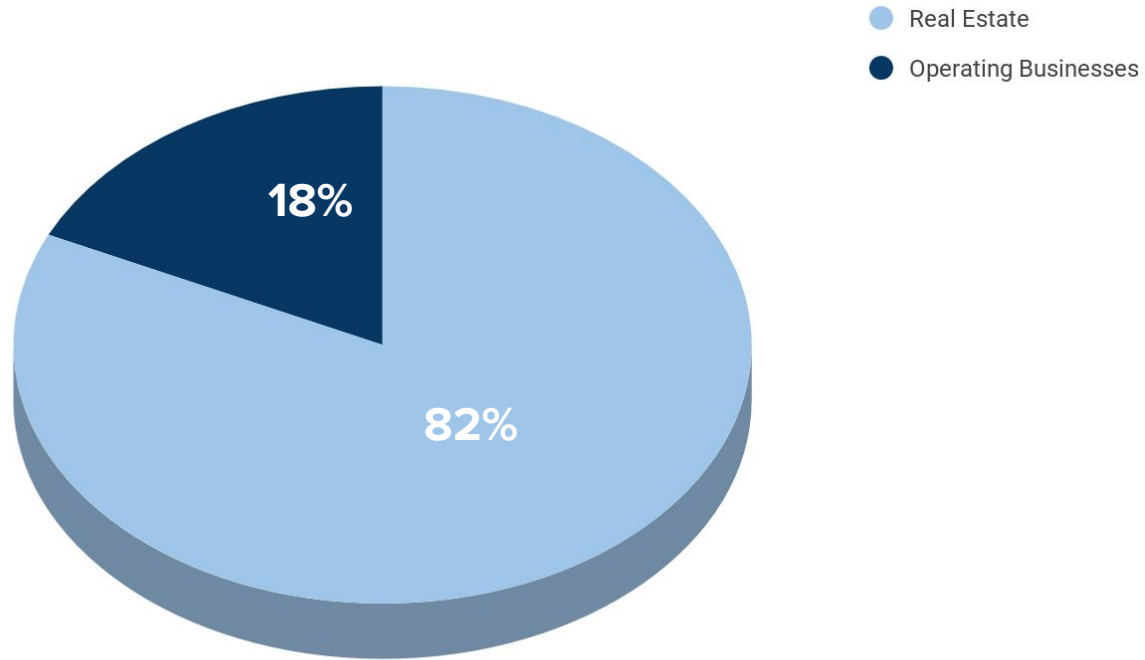


Opportunity Zone Fund Directory

As of May 7, 2019 - The NCSHA (National Council of State Housing Agencies) reports 132 active multi-project Opportunity Zone Funds nationwide, representing more than \$28 billion in community development investing capacity.

Source: <https://ncsha.org/wp-content/uploads/2018/11/NCSHA-Opportunity-Zone-Fund-Directory-2019.05.07.pdf>

Where is Opportunity Zone Money Being Invested?



Key Locations: Sunbelt, California, Mountain West, Manhattan

Opportunity Zone - TOP 10

1. Property prices in OZ's are up.
2. OZ Funds investing across product types.
3. \$\$ going to areas with strong fundamentals/economic revival.
4. OZ Funds investing in multiple markets.
5. Deadline of Dec 31, 2019 to maximize tax benefits.
6. \$\$ Flowing to real estate developments/redevelopments and operating businesses.
7. Thanks to regulations supporting operating businesses, OZ leasing actually up
8. Regulations now allow QOZ funds 6 months to identify projects and 12 months to reinvest \$\$ from asset sales.
9. Projects delayed by government action can now be extended.
10. OZ programs won't turn a poor project into a viable one.

Takeaways for Small/Midsize Developers

- ❖ OZ benefits are not for “for sale” product.
- ❖ Tax incentives can be substantial for long-term investment.
- ❖ Know your OZ maps.
- ❖ Seek advice to structure the transaction correctly.
- ❖ Your project still needs to work from a real estate perspective, regardless of OZ incentives.
- ❖ Substantial funds are available for OZ projects.

Takeaways for Community Groups/Municipalities

- ❖ Market local Opportunity Zones to developer community
- ❖ Promote preferred deals to Qualified Opportunity Zone Funds nationally
- ❖ Layer tax credits and other incentives with OZ funding to support deals
- ❖ Leverage zoning and development incentives to win employment, local content and MWBE procurement concessions
- ❖ Gentrification is a real possibility- Be Proactive!

Takeaways for Businesses

- ❖ Opportunity Zone Funds will not work with short term deals. Focus on long term equipment or real estate deals with a 10+ year life
- ❖ Qualified Opportunity Zone Funds need to generate a return. Understand the hurdle rate of the Fund and structure your deal to meet or exceed it
- ❖ Opportunity Zone monies are valuable equity funding and can be combined with other debt, equity and public sector funding/incentives
- ❖ Opportunity Zone funding will not make a bad deal viable!

Q&A

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