Urban Land Institute

Opportunity Zone Update: Myths and Reality

California is still the land of opportunity

February 6, 2019
DISCLAIMER

None of the information contained or provided herein constitute a recommendation nor is to be construed as tax or legal advice. Please consult a qualified tax accountant or legal advisor regarding any potential investment in Opportunity Funds.
PRESENTATION OUTLINE

- California OZ Outlook
- California Cities Approach to OZs
OZ OPPORTUNITY AND CHALLENGES IN CA

879 low-income Census tracts approved as California OZs:
>10% of the national market

California is typically a preferred investor market:
• Climate
• Labor Force
• Diversification
• Port Activity
• Quality of Life

California has some OZ challenges:
• OZ Competition from 49 States
• Slow/Costly Entitlement Process & Local Government Approvals
• CEQA Timing and Litigation Exposure
Opportunity Zones in 57 California Counties

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CITIES CAN CAPITALIZE ON OZ INVESTMENT

Opportunity Zone Funds are Forming Across the Country

• ~70 funds pursuing investment opportunities
• Diverse preferences for investment types:
  • urban/suburban
  • real estate and business operations

State is Prioritizing OZ Program in Econ. Development Toolkit
“We also want to pair EIFDs with the Opportunity Zones. This is the Big Idea.”

— Gov. Newsom
January 10th, 2019
2019-2020 State Budget Release

“The Governor’s Office of Business and Economic Development will help foster relationships between local EIFDs and investors to facilitate investments for disadvantaged communities or other targeted areas. The state will explore layering additional programs on Opportunity Zones and EIFDs to increase the production of affordable and moderate-income housing.”

- Budget Summary, Governor Newsom’s 2019-2020 Proposed Budget, Page 94
OZs: NEW PRIORITY FOR CA ECON. DEVELOPMENT

2019-2020 State Budget: Gov. Newsom sets OZs and EIFDs as a priority:

• **Pair EIFDs with OZs** leveraging earlier OZ investment with longer term tax increment

• **Conform CA Income Tax** with fed. income tax sched. for low/mod. housing & greentech

• **Excess State Property** to be put to the market (OppSites Marketplace)

• **CEQA Streamlining** for certain OZ projects to mitigate timing challenges

• **Housing Projects** will be treated with preference across policies / funding programs
LEGISLATIVE RESPONSES TO OZ CHALLENGES

**SB25: Streamline CEQA for OZ Projects**
- Introduced 12/3/18 by Senator Caballero
- Fast-tracks CEQA procedures for OZ Projects: 270-day timeline, can only appeal analysis

**SB128: Eliminate EIFD 55% Voter Threshold for Debt**
- Introduced 1/10/19 by Senator Beall
- Authorizes EIFD public financing authority to issue bonds without submitting a proposal to the voters, improving EIFD interaction with OZs

**Upcoming: Income Tax Alignment with Feds**
- Fed. conformance expected for state priorities (low/mod housing, green technology)
- Bills expected from Sen. Hertzberg and others
PRESENTATION OUTLINE

- California OZ Outlook
- How California Cities Approach to OZs
CITIES STARTING TO FOCUS ON OZ INVESTMENT

1. Opportunity Zones can be used as part of an economic development strategy, creating jobs, stimulating economic activity, and jump-starting projects within a community.

2. Opportunity Zones can stimulate housing development, paving the way for cities to meet legislative housing mandates.

3. Opportunity Zones can be augmented by incentive strategies, enhancing the economic viability of an OZ project (EIFDs, TIF, NMTC, Tax Credits).
CITIES MUST GET PREPARED:

- **Educate** city council, staff, and the community on Opportunity Zones
- **Identify** key projects, property owners, and stakeholders in OZ areas
- **Develop** an OZ investment strategy: OZ Businesses, OZ Properties, or both
- **Update** economic development plans and zoning to align with targets
- **Streamline** local project approval processes and align with CEQA
- **Create Prospectus** to market target projects to OZ investors
CITIES: USE OZ PROSPECTUS TO ATTRACT INVESTORS

**OZ Prospectus:** emphasize strategy, stability, and structural advantages of your city to highlight market opportunities for OZ Funds.

**Prospectus Components**

- **Top-level Storytelling** highlights growth and vision for city’s future
- **City/Regional Momentum** analysis of recent development, demographic/econ. indicators, & anticipated growth
- **Economic Development Planning & Zoning Updates** show comprehensive preparation & commitment
- **Streamlined Local Processes** ease timing concerns and improve competitiveness
- **Other Funding Sources** can be paired to enhance economic viability of projects (e.g. EIFD, TIF, NMTC, etc.)
- **Target Areas** describe key locations of growth in city
- **Target Projects/Sites** provide prime opportunities for OZ investment

With over 8,000 approved Opportunity Zones across the country, competition for Opportunity Fund investment is high
"Opportunity Zones have the potential to be the largest infusion of private capital into disadvantaged communities in decades."

— Lenny Mendonca
recently appointed Director of the Office of Business and Economic Development

GO-Biz
• State resource for economic development efforts

OppSites – Official State of California OZ Marketplace
• Assist cities with OZ project cataloging, marketing, and matchmaking
The California OZ Marketplace Is Now Open

Learn more and post your projects
State of California OZ Marketplace
www.Oppsites.com
The Marketplace & Network

connecting capital to California communities

Showcase your Opportunities
Project Marketplace

Create your Profile
Member Network

Connect with Project Partners
Place Networks
Project Marketplace

Discover Business and Real Estate opportunities in Opportunity Zones throughout the nation.

Project Opportunities
- Real Estate Opportunities
- Business Opportunities

Filterable by 'Opportunity Zone', project size, type, location, source, and timing.

screen shot from the Market Network BETA. The Project Marketplace is already calibrated for Promotion and Discovery of Opportunity Zone projects.
PlaceNetworks

Connect with projects, funds, sponsors, owner-operators, investors, fund managers, and service providers focused on investing in specific cities and neighborhoods.

Connecting People to Fuel Opportunities
• Create and share project opportunities.
• Find funds operating in specific cities.
• Access fund project requirements, mission, timing, and project interests.
• Connect with local service providers to perform due diligence.
• Receive real-time notifications about activity, new project opportunities, new business opportunities, and new members and organizations.

Have an Opportunity to add in Riverside?
Add Development Opportunity
Add Business Opportunity
Add Investment Opportunity
Add Available Space
Share your past projects with Riverside
Add Project Examples
Tell the community what you’re looking for
Development Opportunities
Business Opportunities
Investment Opportunities
Available Space
People and organizations
Best Practices and Resources (Coming soon)
Three Steps to Join the Conversation

1. Create your Profile
2. Join Place Networks
3. Share Opportunities
California Department of General Services

- Thousands of Surplus Properties
- For sale, for lease, and P3 Opportunities in Opportunity Zones and nearby Districts.
- Connecting capital to California cities and counties.
WHATS NEXT FOR OZ DEVELOPMENT

Expansion of California Digital Platform
• **OppSites** will make OZ matchmaking easier for cities and investors

Federal OZ Regulations
• Regs and guidance last released in October 2018
• Updated regs expected on February 14th to address key issues:
  • affiliated parties test, business profits/location, original use, investment transfers

California Proposed Legislation to Accelerate OZ Investment
• **SB 25**: CEQA streamlining for OZ projects
• **SB 128**: EIFD vote requirement for debt will be eliminated
• **Income Tax Changes**: to be proposed soon
“I know it’s also controversial, but seriously, if you can create **CEQA waivers** to expedite stadium projects...we sure as hell should be able to do that for 130,000 souls that are out on the damn streets and sidewalks in this state.”

— Gov. Newsom

January 10th, 2019

2019-2020 State Budget Release
OPPORTUNITY ZONES

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