ULI Terwilliger Center for Housing Qualified Opportunity Funds

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Poll Question

As it relates to your understanding of Opportunity Zones & Opportunity Funds –

“I consider myself”…

• a neophyte
• I know just enough to be dangerous
• pretty knowledgeable
“Domestic Emerging Markets” senator cory booker

• Designed to channel more equity capital into overlooked markets.
• Catalyze growth and opportunity through long-term private sector investment
Reality Check

**Benefit**

Help drive money into distressed communities, generating economic growth and jobs.

**Critique**

Hasten gentrification of areas that were already attractive places to invest and serve as a tax shelter for wealthy investors.

*No doubt, some investors will make small tweaks to already-in-progress development plans and not actually revitalize any communities.*

“*[I]n Philadelphia and beyond, developers with projects in census tracts designated as zones are getting ready for what they hope will be a *cash bonanza.*”
Some Clarity on Regulations

- **90%** of O-Fund investments must be in Qualified O-Zone business or assets. (6 month test)

- **Businesses** must have **70%** of tangible property in Zone and derive **50%** of revenues from inside the Zone.

- **Substantial improvements** (at least 2x basis)

- **31 months** to improve property in Zone.

- **LT tax benefits remain**, even if area loses O-Zone status.
Can I invest my capital gains directly into an investment? **Nope**
Assets Eligible for OZ Investment by QOF

Business or real property

Stock of a qualified OZ corporation

Partnership interest in a qualified OZ partnership

Business property used in qualified O-Zones

*Not another QOF
Qualified Opportunity Funds

63 Funds +
Total: $16 billion
Range: $1 million - $3 billion
Average: $250 Million

As of 1/14/19 NCSHA.org
Opportunity Fund Directory
Qualified Opportunity Funds

- **89%** real estate focused
- **47%** target community revitalization
- **44%** economic development or small business development
- **19%** infrastructure/renewable energy

- **2/3** target specific states or regions
- Strongest along the East Coast—especially NY and Florida
Single vs. Multi-Asset Blind Pool Strategy

Investor

Qualified Opportunity Fund

OZ Project/Biz

63

$16B

*NCSHA.org, as of mid January 2019
Funds In Development

- **Fundrise** ($500 million) – office/mixed-use
- **RXR Realty** ($500 million) – two office/mixed-use projects
- **Emergent Communities (Enterprise)** ($250 million) – “live/work/play” development in small cities & towns (allows outcomes and impact measurement to drive its investment thesis).
- **Golden Door Asset Management** ($100 million) – small businesses
- **American Opportunity Fund**
- **Puerto Rico Opportunity Fund**
- **Detroit Opportunity Fund**
- **Small Change Opportunity Fund** – Real Estate, crowd funding
- **Wefunder platform** – Small business start-ups.
“The volume of capital is not constrained. The key is finding projects that can be executed using that capital.”
What’s first out of the box?

- Shovel ready - projects that recently received entitlements
- Regions/areas fundamentally appealing to typical investors
- Single assets
- Deals that already make sense financially
Funds - What we’re up to:

- **Client Driven**
  - Single client - liquidated a large stock position in a public company: $100M+ of capital gains.
  - Multi-generational property owners to sell property with $50M imbedded gain and reinvest all or a portion in multiple commercial and/or multi-family properties
  - **Mixed Pool** - Commercial Finance Firm –OZ Fund to accommodate clients with capital gains triggered from various dispositions.

- **Regional funds**
  - 3 Funds with targeted funding of $40M+. Focusing on 3 states and will primarily invest or start-up various operating businesses. Real estate will be secondary focus.
  - Urban inner-city – real estate + entrepreneurial seed capital for operating businesses

- **Mission Driven**
  - **Lotus Opportunity Fund** (workforce housing + Lotus tenants) – redevelop old hotel; new construction workforce housing
  - Rural Community Focus/Community Based Investors - Mixed use – library, housing, commercial

- **Asset or Property Specific**
  - Fortuitous location & timing - Protracted development option - ground lease, multi-family ground up construction, Developer + four investors
Final Poll Question

Now that you know enough to be dangerous how would you characterize your Opportunity Fund strategy?

- We’re in the early early stages of determining our approach
- We’re already raising money for a fund, have identified projects, and will be ready to invest as soon as possible.
- We have an Opportunity Fund and are actively deploying capital
- We have no plans to start our own fund and will invest in others’ instead.