



ULI Terwilliger Center for Housing Qualified Opportunity Funds

February 6, 2019

Molly McCabe
President and Founder
HaydenTanner
mmccabe@haydentanner.com

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.

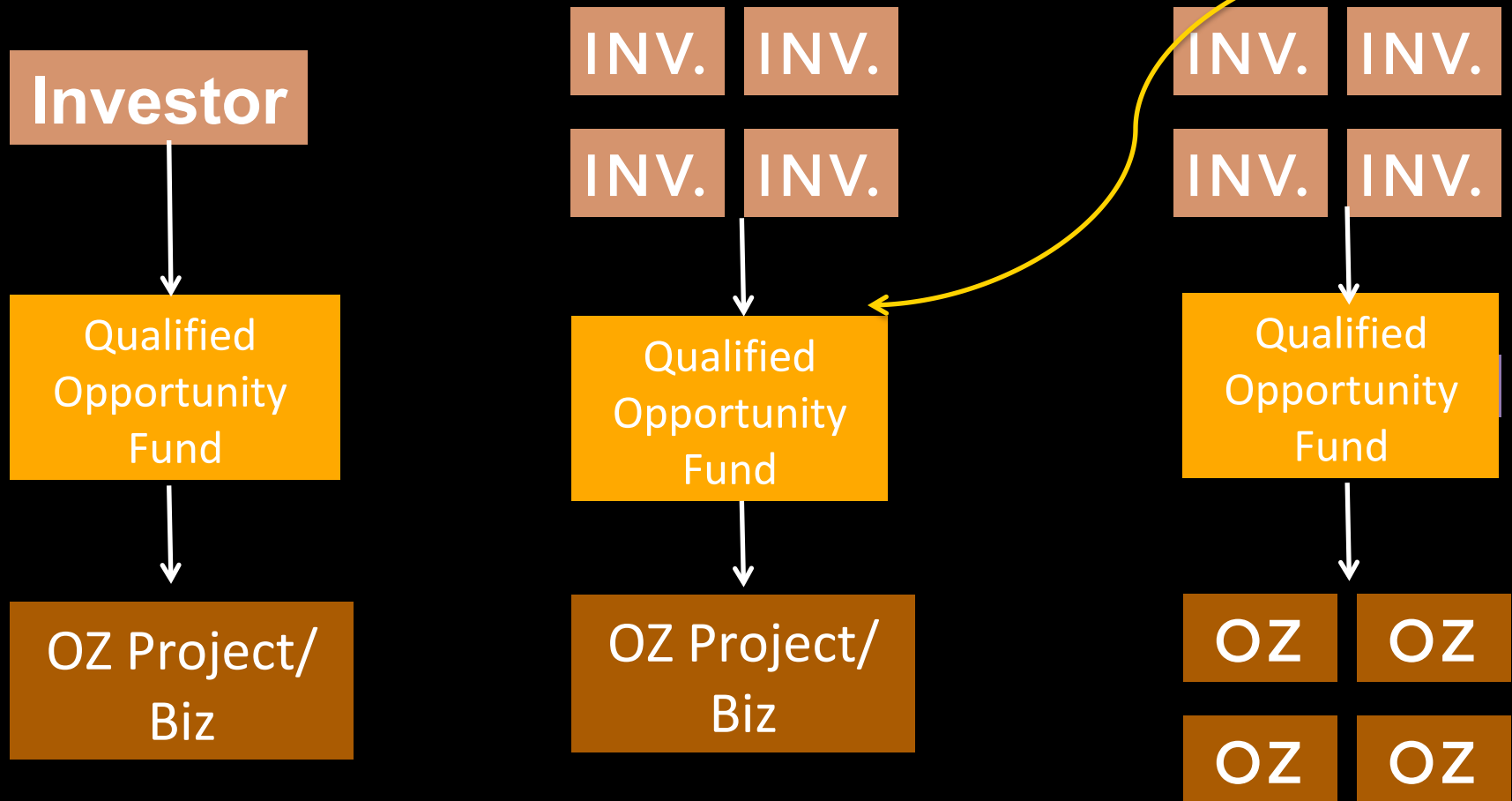
*“[i]n Philadelphia and beyond, developers with projects in census tracts designated as zones are getting ready for what they hope will be a **cash bonanza**.”*

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.

Fund Models

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

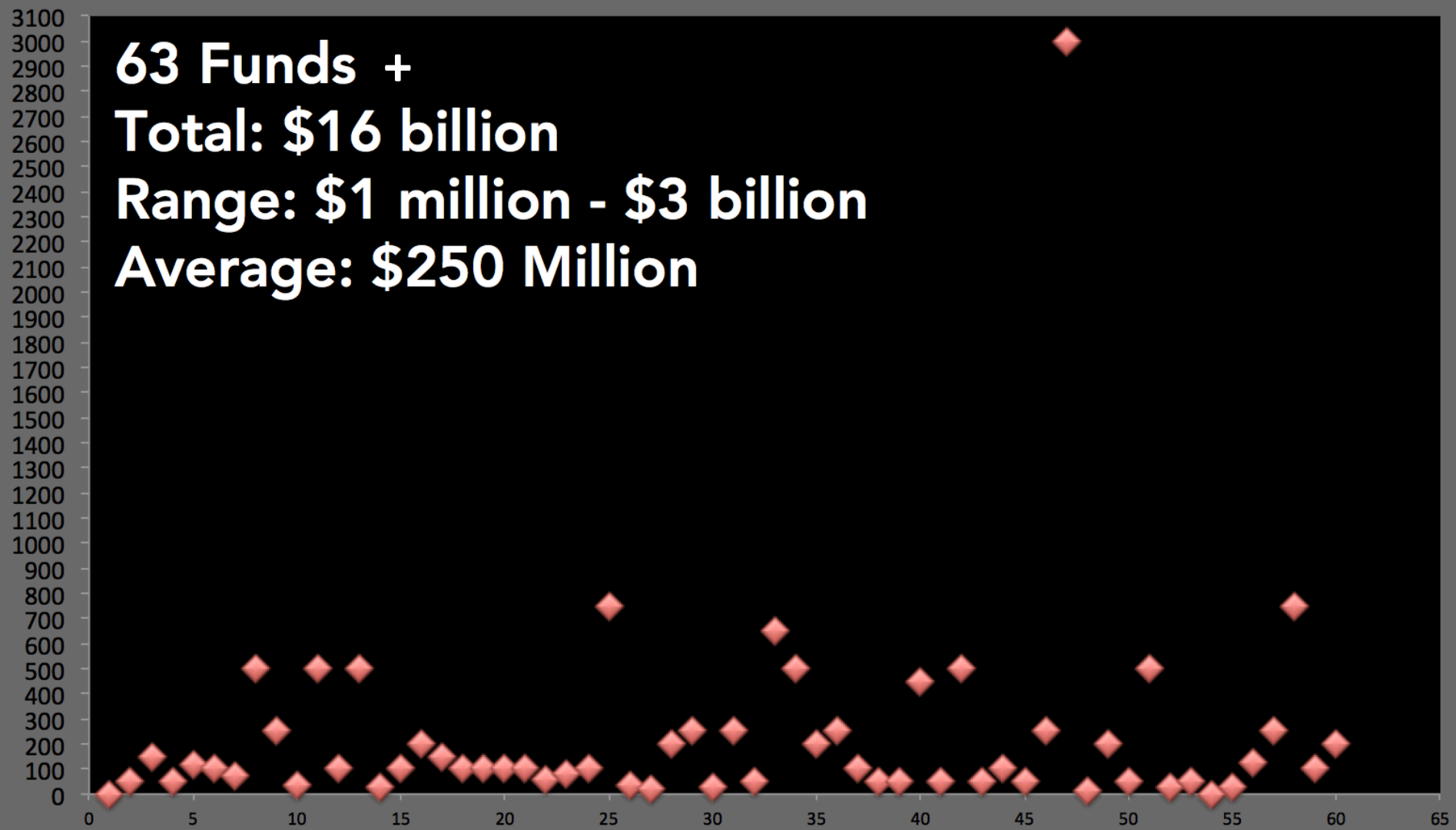


Business property
used in qualified
O-Zones

*Not another QOF

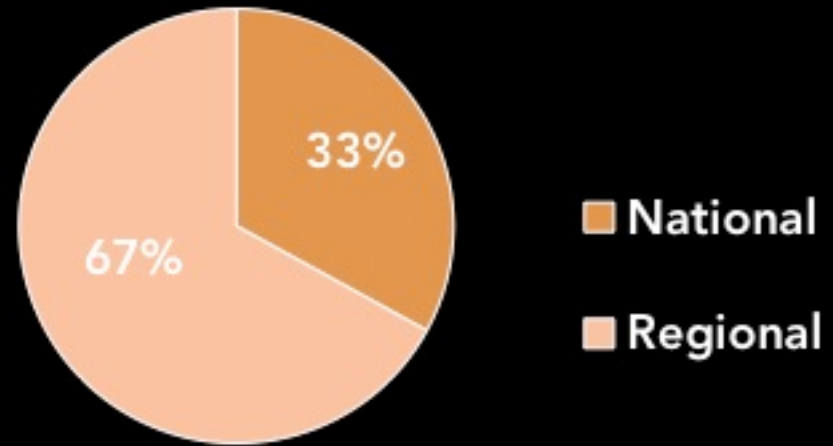
Qualified Opportunity Funds

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



?

63

\$16B



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
 - Developer acquiring large acreage currently owned by future anchor tenant. Sale/lease-back. Mixed use development. Using OZ status as marketing magnet for business tenants. Potential OZ business funding.
 - Fortuitious 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.