

CoffeeTalk: Opportunity Zones

January 10, 2019

Clark Spencer | Grubb Properties

Bobbi Jo Lazarus | Elliott Davis

Dennis McGlory | SunCap Property Group





where
would
you
rather
BE?

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Opportunity Zones

An Executive Summary

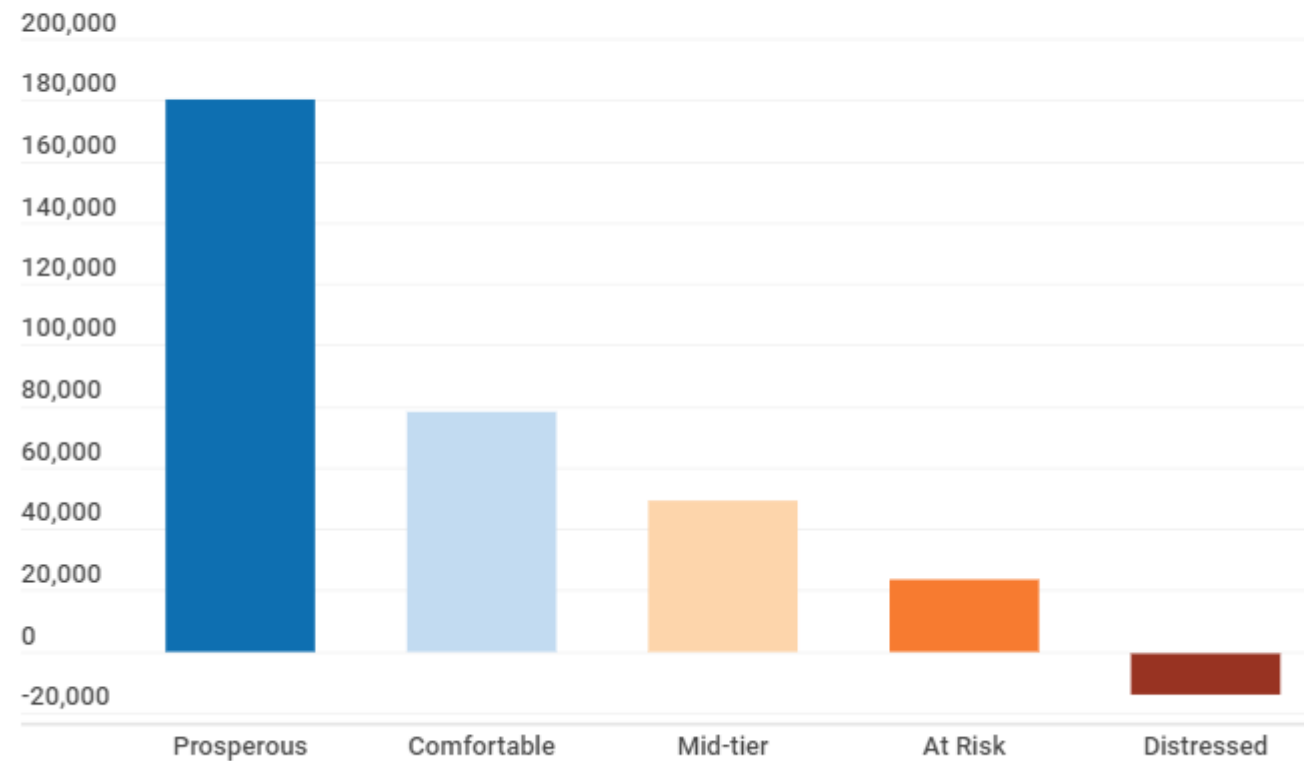
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Bobbi Jo Lazarus
Shareholder

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- 8,700+ LIC census tracts across the U. S.
- Average poverty rate of 31%
- Median family income of 59% of its area median family income
- Housing stock has median age of 50 years

Increase in business establishments between 2012 and 2016



1

Gain deferral

2

Partial
forgiveness

3

Additional
forgiveness

Gain deferral

By investing in an opportunity zone, you can defer taxes on your capital gain until 2026.

- Earlier, if opportunity zone property is sold before 2026

Partial forgiveness

If opportunity zone investment is held for:

- 5 years – 10% gain elimination
- 7 years - +5% gain elimination

Additional forgiveness

If opportunity zone investment is held for 10 years:

- The tax basis of the new investment is deemed to be its FMV on sale
- It is an election

From an investors perspective:

- Must reinvest your capital gain into a Qualified Opportunity Fund (“QOF”).
- Entire gain can or part of the gain can be reinvested into a QOF.
- Must be done within 180 days.

Qualified Opportunity Fund

- An investment vehicle which is organized as a corporation or a partnership for the purpose of investing in **qualified opportunity zone property**.
- Holds at least 90 percent of its assets in qualified opportunity zone property.

Qualified Opportunity Zone Property

- Qualified opportunity zone stock.
- Qualified opportunity zone partnership interest.
- Qualified opportunity zone business property.

Qualified Opportunity Zone Business

- At least 70% of the tangible property is **qualified opportunity zone business property**.
- At least 50% of income derived from active conduct
- Less than 5% of unadjusted basis of property is nonqualified financial property.
- Can't be a "sin business". (ex: golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other gambling, and store with primary business is the sale of alcoholic beverages.)

Qualified Opportunity Zone Business Property

- Acquired by purchase after Dec. 31, 2017 from an unrelated party.
- During substantially all of the QOF's holding period of the property, substantially all of the use of such property was in an OZ.
- And, either:
 - Original use of such property in the OZ commences with the QOF, or
 - The QOF substantially improves the property

Example:

- Individual A sells appreciated stock on May 1, 2018 for \$3M and realizes a gain of \$2M. On September 1, 2018, A invests his gain of \$2M in a QO Fund.
- Since the \$2M gain was reinvested within 180 days into a QO Fund, A does not recognize any gain on his 2018 income tax return.
- The \$1M of initial basis in the stock can be retained by A.

- Tax Year 2023 – on September 1, 2023, A has held his investment in the QO Fund for 5 years and eliminates 10% of his original gain or \$200k ($\$2\text{M} \times 10\%$)
- Tax Year 2025 – on September 1, 2025, A has held his investment in the QO Fund for 7 years and eliminates an additional 5% of his original gain or \$100k ($\$2\text{M} \times 5\%$).
- Tax Year 2026 – on December 31, 2026, the temporary deferral period ends and A is required to recognize the remaining \$1.7M of deferred gain on his 2026 income tax return. ($\$2\text{M} - \$200\text{k} - \$100\text{k}$)

- Assume on December 31, 2028, A sells his interest in the QO Fund for \$5M.
- Under normal rules, A would recognize a gain of \$3M (\$5M sale - \$2M contribution in 2018)
- However, since the interest was held for 10 years, permanent exclusion will allow the basis to be equal to the FMV (\$5M), resulting in no further gain recognition by A.
- Thus, the total gain recognized by A was only \$1.7M out of \$5M.

- On October 19th, the Treasury and IRS issued proposed regulations and other guidance related to Opportunity Zones.
- Shortly following, Revenue Ruling 2018-29 was issued, address the substantial improvement requirements as it relates to acquisitions of land. When land and building are acquired, only the building must be substantially improved.
- Although the regulations are only proposed regulations, Treasury has stated that these regulations can be relied upon, if relied on in full.

Resources

- <https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>
- <https://public.nccommerce.com/oz/#section-zones>



elliottdavis.com

elliott davis

Bobbi Jo Lazarus, CPA

Shareholder

704-808-5245

Bobbijo.Lazarus@elliottdavis.com



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OPPORTUNITY ZONES

Case Study

Morgantown,
West Virginia



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AERIAL
OVERVIEW



SITE
PLAN

Building A

461 High Street
1 story Bldg.

Tenants:
-Sandwich U

Building B

469 High Street
3 story Bldg

Tenants:
-Sprint
-Glass Gone Wow
-Apartments

Building C

485 High Street
3 story building

Tenants:
-Casa Di Amici
-Backdoor
-Apartments

Building D

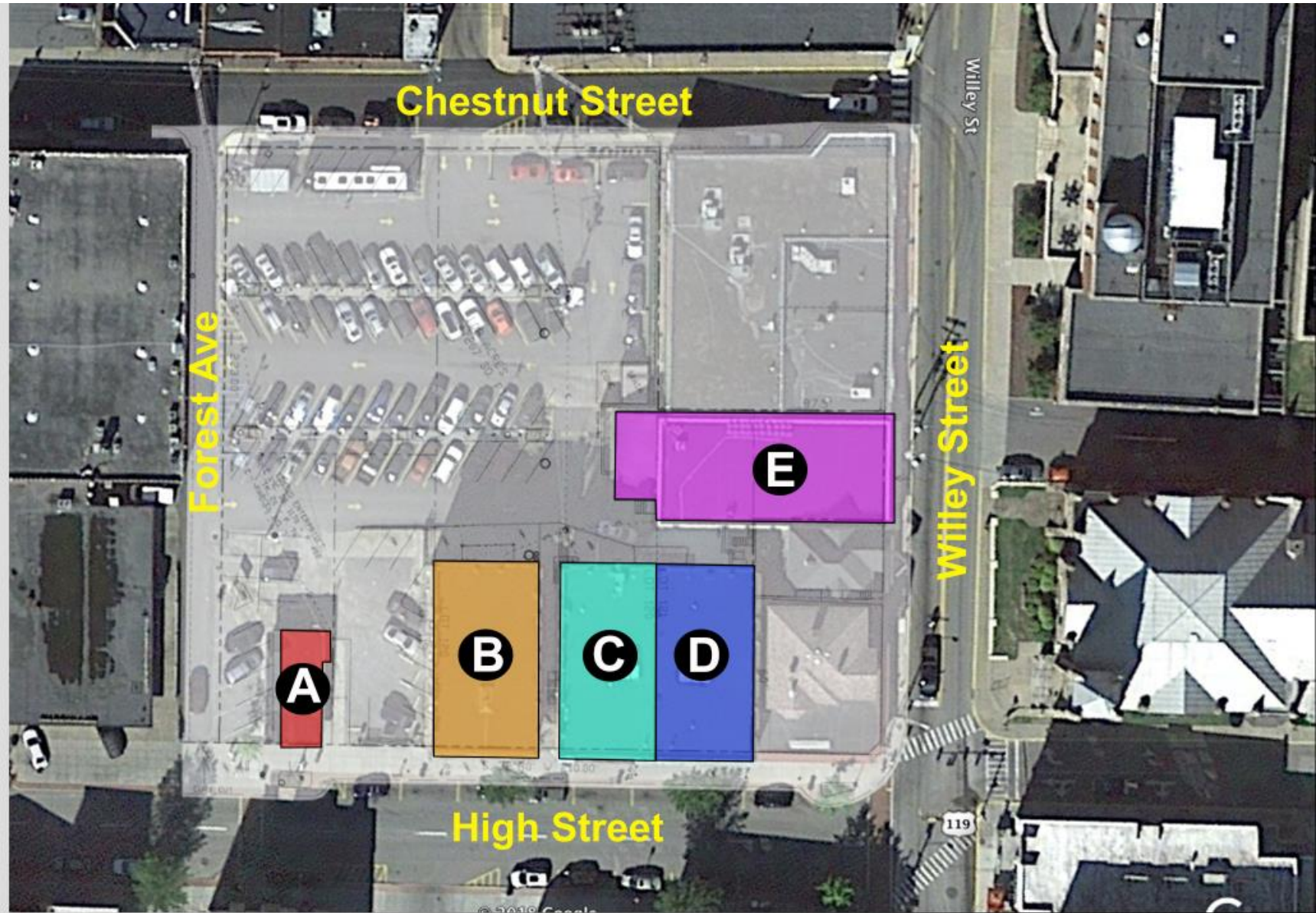
491 High Street
3 story building

Tenants:
-Casa Di Amici
-Backdoor
-Apartments

Building E

180 Willey Street
1 story bldg

Tenants:
-CrossFit RidgeLine



EXISTING
CONDITIONS



EXISTING
CONDITIONS



EXISTING
CONDITIONS



OVERALL
EXTERIOR
DESIGN



PERSPECTIVE
DOWN
HIGH
STREET



REAR
ELEVATION



CONTACT



Dennis McGlory

dmcglory@suncappg.com

704-945-8032

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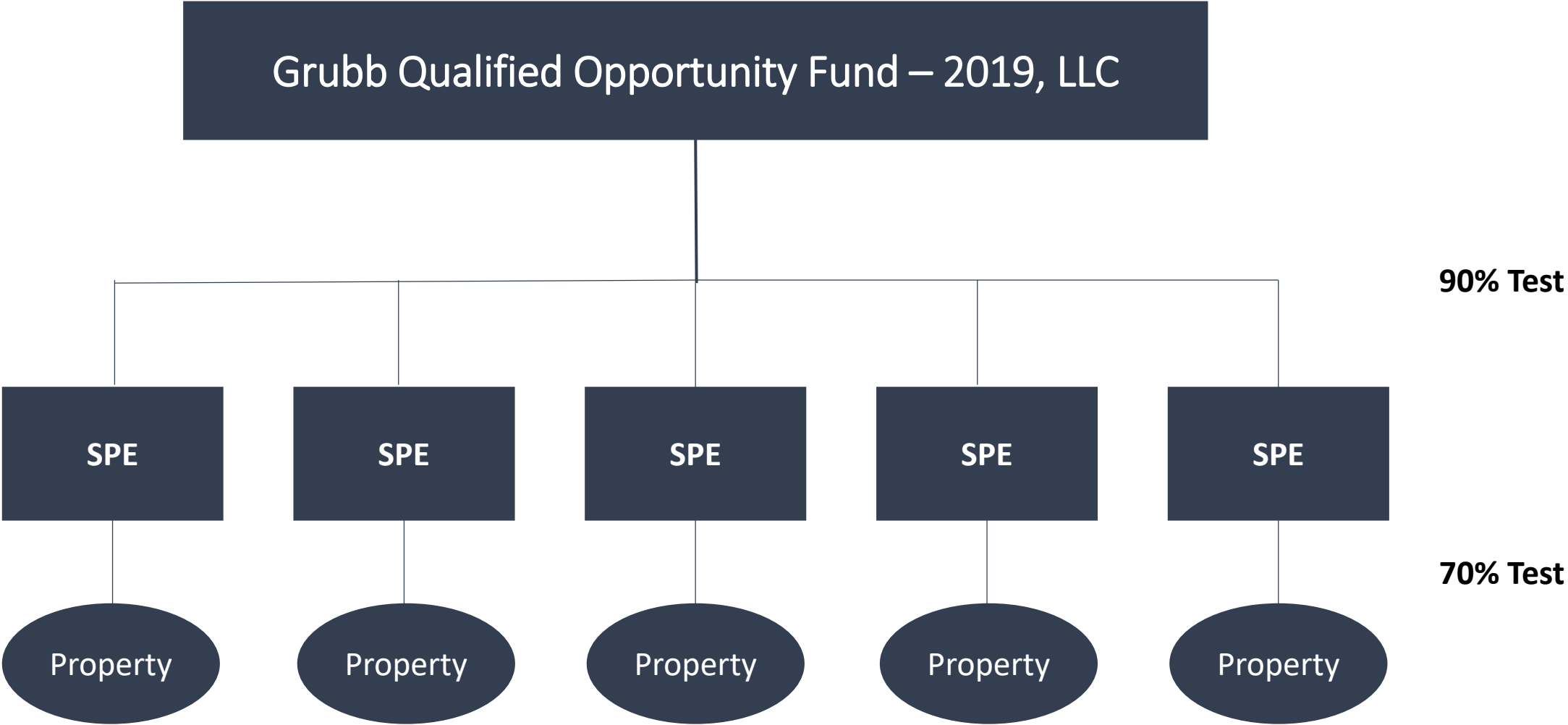
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Grubb QOF – Fund Structure





Location/Site Highlights	
MSA / Submarket	Winston-Salem
Address	501 W Fourth Street
Site Acreage	1.33
First Unit Delivery	August 2020
Final Unit Delivery	December 2020
Total Units	224
Parking Spaces	~310
# of stories	5
Retail Space	~1,300 sq. ft.
Total Project Cost	46,000,000



Amenities

Leasing office, street fronting state of the art fitness center & cycle center, retail space, clubhouse, solar heated pool, outdoor terrace, demo kitchen, green space, automated package concierge system, dog park and pet spa.

Location



Additional Project Details

- Parking shared with GMAC Building through long-term parking lease in deck across Spruce Street
- 30% of the units are available to residents that make 90-110% of the area median income by way of an incentive grant subsidy agreement.
- This agreement provides 1.65M in tax abatement over 10 years while a brownfield subsidy provides a stepped tax abatement over a 5 year period.
- Financed through HUD 221(d)(4) loan.
- Development begins in May 2019
- Approximately 150 construction workers on site per day.

Grubb QOF - Charlotte West Side Development Initiative

Program Summary

Grubb Qualified Opportunity Fund intends to work with community partners to boost economic development and fight gentrification on Charlotte, NC's west side.

Our fund will:

- Seek to invest 10% of its capital commitments into non-Link Apartments projects, such as grocery stores, community centers and housing into the area.
- Cap entity level returns at 10%, plus return of capital, with any excess to be donated to community development and similar organizations benefiting the Charlotte area.
- Not charge an asset management fee on any funds invested into these projects.

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