TOOLS & INCENTIVES TO REACTIVATE THE REAL ESTATE INDUSTRY IN TODAY’S ENVIRONMENT

URBAN LAND INSTITUTE/ NEW ORLEANS BUSINESS ALLIANCE PRESENTATION
MAY 28, 2020
FAEGRE DRINKER IS A LEADER IN THE OZ MARKETPLACE

**INFLUENCING PUBLIC THOUGHT ON OZ**

**Acknowledged Thought Leaders**
- Participants in OZ Conferences
- Published Articles on Opportunity Zones

**Provider of Educational Resources**
- OZ Introduction Webinar
- Social Equity & Gentrification OZ Webinar
- A to OZ Primer

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**EXECUTING OZ RELATED TRANSACTIONS**

**OZ Fund Formation**

**Wealth Management (Family Office Investment)**

**Corporate HQ & Corporate Investments**

**Municipal Advisory & Strategy**

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COVID-19 MARKET TRENDS AND REAL ESTATE
MUNICIPAL & FEDERAL STAGES OF PANDEMIC RESPONSE

Health Crisis Response
• Lockdown, Investments halted

Employment Triage
• Federal response to encourage retention, local response

Local Stimulus Plan
• Municipalities still in denial but beginning to plan, Federal government yet to fully respond

Recovery Plans
• Federal government & municipalities make strategic investment to spur growth

Municipal Impact Realized
• Local municipalities begin/continue to restructure, make service cuts, raise taxes in response to full economic impact
## PREPARING FOR THE “NEW NORMAL” IN REAL ESTATE

### Globalization in Retreat
- Across the global, there are national efforts to reshape the trends of globalization
- The interconnectedness of the world will not be eradicated but there will be substantial shifts in investment and production patterns

### Travel Patterns Shifting
- As happened after 9/11, a large percentage of leisure travel will be domestic versus international benefiting domestic tourism
- Business travel is likely to retrench with locations with acyclic demand from military bases, hospitals and universities outperforming

### The New Normal of Personal Interaction
- Hospitality in particular but every category from retail to class A offices and industrial locations will need to rethink and recreate personal interactions with an eye towards:
  - Food and worker safety
  - Customer and client safety
  - Crowd management & Safety
  - The expectations and safety of personal interactions

### Public Money will Lead Private Real Estate Investment
- The level of uncertainty in the market will shift the drivers in the real estate market
- Federal and state investment in real estate and infrastructure projects will serve as both a market signal and a risk mitigation tool to encourage private real estate investment by asset class and geographic location
REAL ESTATE RETREATS TO SUBSIDIZED INVESTMENTS

Class A Residential
- Mixed Use, Market Rate Apartments & Townhomes

Class C Residential
- Workforce & Mixed Income Housing
- Mobile Home Parks

Hospitality Assets
- New Construction of Full Service, Boutique and Select Hotels

Hospitality
- Busted Construction, Selective Asset Acquisition

Other Investments
- Limited Investments in QOZ Business

Other Investments
- Combined QOZ Business and Real Estate Invests
- Increased in Public Supported Infrastructure
THE DECISION POINTS AND CAPITAL NEEDS OF BUSINESSES

Do I Close Now?
- Timeframe: 30-45 Days
- How to manage pre-COVID-19 liabilities
- $25K SBA Express Loan
- $10K Economic Injury Disaster Loans (EIDL) Advance
- Any local grants

Can I Make it Thru Crisis?
- Timeframe: 30-120 Days
- How to pay bills/staff during shutdown
- Paycheck Protection Plan (PPP)- requires bank support
- Economic Injury Disaster Loans (EIDL) – requires bank support
- SBA 7a Loans

Can I Restart My Business?
- Timeframe: Late summer 2020
- How do I grow post-COVID-19
- Investments to accommodate higher safety standards, marketing and new inventory

Need for immediate cash
Need cash to manage shutdown costs
Working Capital to Emerge from Shutdown
SOURCES OF PUBLIC FUNDING
THE CARES ACTS AND LOCAL FUNDS

Housing & Urban Development
- CDBG
- Home Funds
- 504 Loans
- Housing Vouchers

Small Business Administration
- Paycheck Protection Plan (PPP) - requires bank support
- Economic Injury Disaster Loans (EIDL) – requires bank support
- SBA 7a Loans

EDA
- Construction Grants
- Revolving Loan Fund
- Capacity Building Grants
- Planning Grants

Local Municipal Funds Recovery Funds
- Recovery Funds (Grant, Debt & Equity)
- Asset Recycling

▷ The public funding will drive a substantial amount of real estate investment as we reemerge into this post COVID-19 world.

▷ Public private partnerships will become even more important.

▷ Much of the Federal public funding will be driven geographically by opportunity zones.
# PROJECTED OZ MARKET INVESTMENT PROFILE

## Early Stage OZ Investments – Investment Ready Projects (2018-2020)
- **Capture 7 year tax reduction benefit before Jan 2020**
- **Swap one form of capital for OZ investment money**
- **Projects likely to be located in “gentrified” areas**

## Intermediate Stage 2 OZ Investments – Concept Ready Projects (2020-2022)
- **Capture 5 year tax reduction benefit before Jan 2023**
- **Investment will likely follow demonstrated public investment**
- **Municipalities will drive location and sharing of social benefit**
- **Likely to include clean energy, agricultural and infrastructure projects**

## Late Stage OZ Investments – Combined Operating & Real Estate Projects (2021-2026)
- **Capture 10 year tax free appreciation benefit**
- **Investment will likely follow demonstrated public investment**
- **May be one of projects or part of large concepts with multiple investments**
STRATEGY RECOMMENDATION: PATH TO OZ ATTRACTION

**Private Follow-on Investment**
- **Catalyst Projects**
  - Initiate multi project sites
  - Can sometimes be public infrastructure
- **Anchor Projects**
  - Establishes cashflow
  - Attracts related industries and businesses
- **Fill Projects**
  - Develop organically from catalyst and/or anchor projects and/or master plan

**Public Investment**
- Site Aggregation & Planning
- Zoning & Permitting
- Infrastructure
- Direct Co-Investment

**Municipal & University Prioritization**
- Existing or Potential Single & Multi Project Identification
- Pre-Development Needs and Fund Sourcing
## OZ INVESTOR INTEREST & COMPETITIVE ADVANTAGE

<table>
<thead>
<tr>
<th>Sustainable Competitive Advantage</th>
<th>Pre-Development – Jump Starting Activity</th>
<th>Pre-Development Funding Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>Medical Professionals Recruitment</td>
<td>OZ Venture Capital Backed Companies</td>
</tr>
<tr>
<td>Retail &amp; Entertainment</td>
<td>Ease of Access, High Traffic Location</td>
<td>Transportation upgrades to facilitate more traffic</td>
</tr>
<tr>
<td>Commercial &amp; Tech Companies</td>
<td>Proximity to Desirable Workforce</td>
<td>Housing Density</td>
</tr>
<tr>
<td>Residential Housing</td>
<td>Significant &amp; attractive public amenities</td>
<td>Transportation upgrades</td>
</tr>
</tbody>
</table>
EXAMPLE PROJECTS
The Tampa Innovation District is arguably the largest opportunity zone project in the United States by area and diversity of OZ projects. The effort underway in Tampa to revive a struggling mall and to redevelop the surrounding neighborhood area without displacement of people and businesses represents both the promise and spirit of the opportunity zones legislation.”

The District is:

→ 19 sq. mile redevelopment area
→ 100 acre mall with multi-billion dollar investment
→ Largest medical district in Florida
→ 2nd largest VA Hospital in US
→ 44,000 Students at University of South Florida
→ 4 million annual visitors to Busch Gardens
OVERCOMING GATING ISSUES TO ACHIEVE EQUITABLE GROWTH

Achieving population growth and enhanced tax revenue *without* displacement cannot be achieved without a substantial investment in storm water and waste water infrastructure that will allow for the population density that can, in turn, fund the enhancements.

**Large Scale Gating Issues**
- Transportation
- Infrastructure – Waste & Storm Water
- Infrastructure Improvements

**Site Specific Gating Issues**
- Site Control
- Land-Use
- Zoning
- Pre-Development Activities

**Funder/ Operator Gating Issues**
- Developer Identification
- Business/ Entrepreneur Identification
- Incentives
OZ MIXED USE RESIDENTIAL INVESTMENT
LAKE FOREST BLVD NEW ORLEANS

Attractions & Assets
- Lake Forest Blvd
- Plaza Site
- NOE Hospital
- Joe Brown
- Audubon
- Franklin Ave
- Household of Faith
- Lake Forest Academy

Recent Projects
- Public Investment
  - Site at Mayor
- Private Investment
  - Bullard Strip Mall Improv.
  - South Central Bell Site
  - Toys R Us Site
The Health Crisis has caused a Liquidity Crisis which has resulted in a Solvency Crisis with substantial bankruptcies in the hospitality industry expected over the next two years.

The economic impact of COVID-19 has been disproportionate with the hospitality industry suffering almost 50% of all job losses in the country to date.

Hospitality’s breadth of immersion in every aspect of the American economy distinguishes it from other industries. Government support (Federal and local) is critical yet insufficient to stem the tide of bankruptcies.

There a number of strong hospitality operators with thriving Pre-COVID-19 businesses that are now at-risk of insolvency. These operators are willing to sell stakes in their businesses for patient equity capital at a discount to market valuation.

Hospitality assets that survive the COVID-19 lockdown will benefit from the reduction of overall hospitality supply, the increase of domestic travel and the expected economic growth over the next 5-10 years.
HOSPITALITY IMPACT FUND
FUND FOCUS & STRUCTURE

Investment Focus
The Hospitality Impact Fund I will target:

- Undervalued hospitality related businesses & real estate
- Companies & assets with operational improvement possibilities preferably located within opportunity zones
- A mixed portfolio driven by leisure/business transient demand AND acyclical demand from medical, university and/or military activity

Fund Structure

<table>
<thead>
<tr>
<th>Fund Size</th>
<th>$100MM</th>
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<tbody>
<tr>
<td>1st Close (Q3-2020)</td>
<td>$25MM</td>
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<tr>
<td>Life of Fund</td>
<td>10 Years</td>
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<tr>
<td>Commitment Period</td>
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<tr>
<td>Management Fee</td>
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<tr>
<td>Carried Interest</td>
<td>20% after</td>
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<td>LP Minimum</td>
<td>$250K individual $1MM institution</td>
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<tr>
<td>Investment Type</td>
<td>Convertible Preferred Equity Opportunity Zone Preferred</td>
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