Steps to making an Opportunity Zone investment

Taxpayer realizes and recognizes a capital gain

Taxpayer invests in Qualified Opportunity Fund (up to 180 days)

Fund makes equity investment in Opportunity Zone Business (up to 31 months+ under proposed regulation)

Fund holds 90% of assets in Zones
Opportunity Zones tax benefits

- **Temporary deferral** of taxes on previously earned capital gains
  - Not taxed until the end of 2026 or when the newly-invested-in asset is disposed of, whichever is earlier

- **“Discount” (basis step-up)** of previously earned capital gains invested
  - At least 5 years in Opportunity Fund = 10% discount
  - At least 7 years in Opportunity Fund = 15% discount

- **Permanent exclusion** of taxable income on new gains
  - At least 10 years in Opportunity Fund = no taxes on capital gains produced through their investment
Opportunity Zones are **different**

- Large segment of the US qualified (56% → 12% designated)
- Not an intermediary like a NMTC CDE or HFA
- Not a cap on total taxpayer subsidy
- Not a competitive application process
- Lots of possible use cases (but RE heavy)
- Not likely an even distribution of investment across Zones
- Incentive, not subsidy
- Speculative back end value, relatively shallow up front value
- How many more deals will pencil out?
Proposed Opportunity Zones regulations

- Funds can be retroactively self certified
- Opportunity Funds have 31 months (+ more if government delays) to invest; clock restarts with each contribution
- Opportunity Funds can be multi-asset investment vehicles that dispose of assets and distribute or reinvest gains; 1 year to redeploy
- At least 40% of intangible property used in the active conduct of a trade or business in the Opportunity Zone
- At least 50% of business income from active trade or conduct in the Zone, but with “safe harbors” for hours worked, salaries paid, and tangible property
Proposed Opportunity Zones regulations (cont’d)

- Leased property treated as business property, w/o substantial improvement requirement. Triple net leases alone don’t quality as active trade or business.

- Owned property must either meet “original use” or “substantial improvements” tests
  - Vacant structures (>5 years) are “original”
  - No substantial improvement needed for unimproved land
  - Substantial improvement requires doubling basis within 30 months, but land – doesn’t count in basis

- Other questions still unanswered, most notably, reporting requirements
What do Opportunity Zones look like?
Chicago/Cook County Opportunity Zones

Source: Urban Institute analysis of US Treasury Department data.
Cleveland/
Cuyahoga
County
Opportunity
Zones

Source: Urban Institute analysis of US Treasury Department data.
Milwaukee Opportunity Zones
Miami-Dade Opportunity Zones
Bay Area Opportunity Zones
DC Area Opportunity Zones

Source: Urban Institute analysis of US Treasury Department data.
Zone characteristics

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median household income</td>
<td>$33,345</td>
</tr>
<tr>
<td>Poverty rate</td>
<td>31.8%</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>13.1%</td>
</tr>
<tr>
<td>Median home value</td>
<td>$145,187</td>
</tr>
<tr>
<td>Median rent/month</td>
<td>$768</td>
</tr>
<tr>
<td>Homeownership</td>
<td>44.6%</td>
</tr>
<tr>
<td>Severe rent burden</td>
<td>26.5%</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>15.8%</td>
</tr>
</tbody>
</table>
## Zone characteristics (cont’d)

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>White alone</td>
<td>39.6%</td>
</tr>
<tr>
<td>Black alone</td>
<td>24.0%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>29.9%</td>
</tr>
<tr>
<td>Asian Americans &amp; Pacific Islanders alone</td>
<td>2.9%</td>
</tr>
<tr>
<td>Age 25+ with HS degree or less</td>
<td>54.8%</td>
</tr>
<tr>
<td>Age 25+ with BA degree or higher</td>
<td>38.0%</td>
</tr>
<tr>
<td>In a metro area</td>
<td>78.2%</td>
</tr>
<tr>
<td>In a micro area</td>
<td>11.4%</td>
</tr>
<tr>
<td>Not metro or micro</td>
<td>10.5%</td>
</tr>
</tbody>
</table>