

# Opportunity Zones – The Good, The Basics, and What's Next



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# What is the Opportunity Zone program, and what does it mean for California communities?



# OPPORTUNITY ZONES

## BASICS AND COMMUNITY BENEFITS

### OZ BASICS

- **Incentivizes** individuals to realize capital gains and invest in certain low-income areas through tax deferrals and reductions.
- **Timing** is critical to maximize investments
- **Competition** will be high for OZ investment

### OZ COMMUNITY BENEFITS

1. Opportunity Zones can be used as part of an economic development strategy, **creating jobs, stimulating economic activity, and jump-starting projects** within a community.
2. Opportunity Zones can stimulate housing development, **paving the way for cities to meet legislative housing mandates.**
3. Opportunity Zones can be used to augment other tax incentives and economic development strategies, and **can enhance the economic viability of a proposed project by mixing with EIFDs, NMTC, other Fed Tax Credits).**

# OPPORTUNITY ZONES AREA DESIGNATION PROCESS

The Tax Cuts and Jobs Act of 2017 created **Opportunity Zones** to unlock unrealized capital gains by **incentivizing private sector investment and development** in low income census tracts

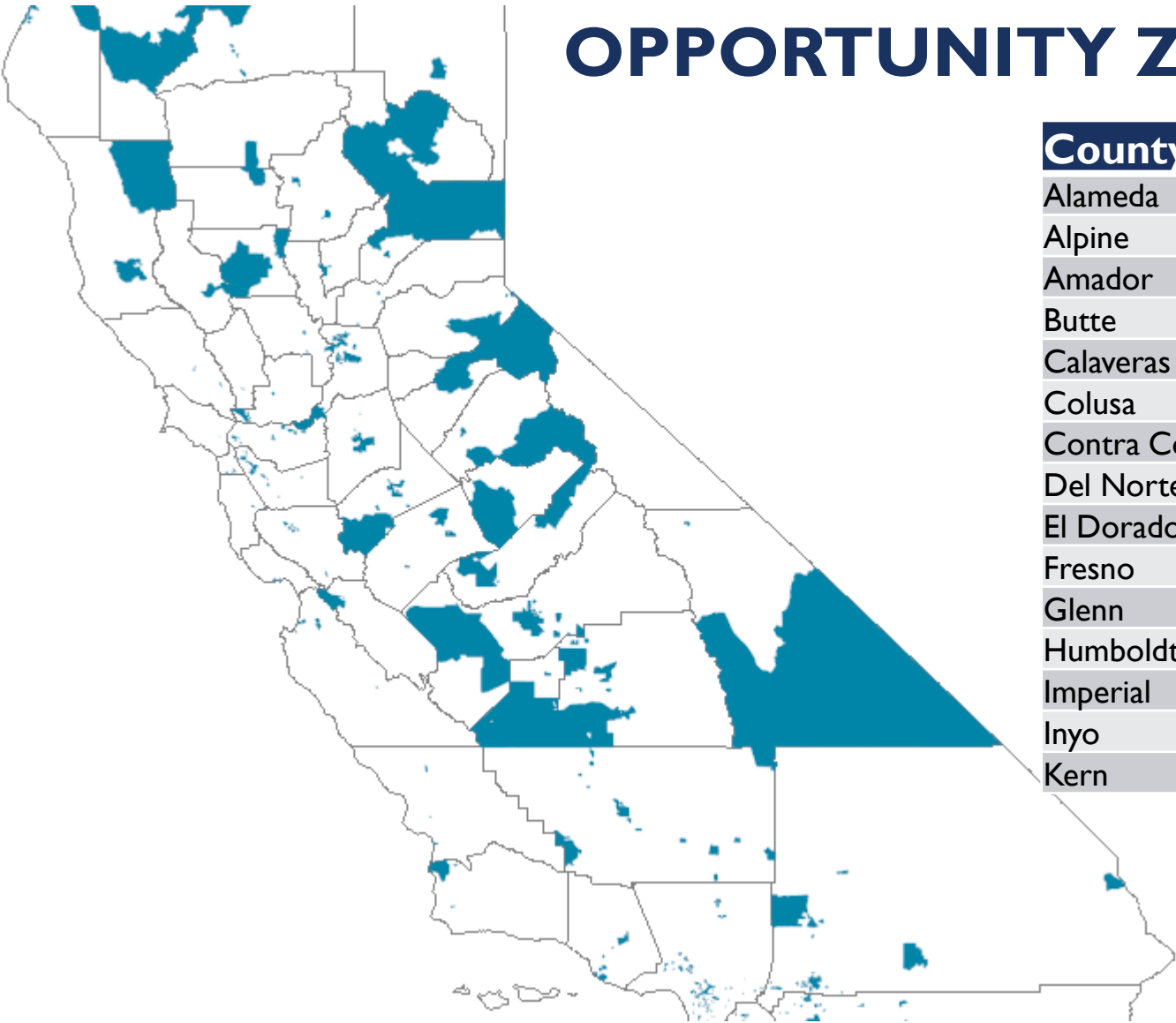
3,516 low-income census tracts in California;  
25% eligible for nomination

Tract screening criteria:  
poverty level  
Sufficient business activity  
Geographic diversity

879 O-Zones  
approved in California

8,700 census tracts approved in the United States  
**879 Census tracts approved in the State of California in April 2018**

# OPPORTUNITY ZONES IN 57 CA COUNTIES



County	OZ	County	OZ	County	OZ	County	OZ
Alameda	47	Kings	5	Plumas	2	Siskiyou	3
Alpine	1	Lake	3	Riverside	49	Solano	9
Amador	1	Lassen	2	Sacramento	43	Sonoma	3
Butte	9	Los Angeles	274	San Benito	2	Stanislaus	17
Calaveras	1	Madera	5	San Bernardino	57	Sutter	4
Colusa	2	Marin	1	San Diego	47	Tehama	1
Contra Costa	17	Mariposa	2	San Francisco	11	Trinity	2
Del Norte	2	Mendocino	3	San Joaquin	20	Tulare	17
El Dorado	3	Merced	11	San Luis Obispo	3	Tuolumne	2
Fresno	47	Modoc	2	San Mateo	4	Ventura	8
Glenn	2	Monterey	9	Santa Barbara	7	Yolo	7
Humboldt	7	Napa	2	Santa Clara	13	Yuba	3
Imperial	7	Nevada	2	Santa Cruz	4		
Inyo	2	Orange	27	Shasta	6		
Kern	35	Placer	3	Sierra	1		

# OPPORTUNITY ZONES

## WIDE VARIETY OF POTENTIAL INVESTMENTS

*Housing & real estate development; infrastructure & energy projects; tech & service businesses*



# OPPORTUNITY ZONES

## THE ESSENTIALS

### THE BASICS

- Project must be in a qualified Opportunity Zone census tract
- Tax advantages incentivize a 10-year hold
  - Deferral of capital gains taxes until earlier of 2026 or upon exit
  - Step up in basis
    - 5 year hold – Basis increased 10%
    - 7 year hold – Basis increased 15%
  - Elimination of capital gains taxes at 10 years or upon sale
- Timing requirements are critical:
  - 90% of Opportunity Fund assets must be invested in the Opportunity Zone based upon the average of two points in time, based upon the taxable year
- Timing requirements important for the Investor
  - Capital gains must be invested in the Opportunity Fund within 180 days of realization

### THE INVESTMENT

- Two investment options:
  - Qualified Opportunity Zone Property
  - Qualified Opportunity Zone Business
- Investment transaction must occur after December 31, 2017\*
- Property must be substantially improved during any 30-month period\*
- Minimal requirements on project type – could include residential, commercial, hospitality, office, industrial, or an operating business. Cannot include “sin” business

\* *Guidance from U.S. Dept. of Treasury ongoing*

# TO ATTRACT OZ FUNDS CITIES PREPARING PROSPECTUSES

<b>Educate</b>	city council, staff, and the community on Opportunity Zones
<b>Identify</b>	key projects, property owners, and stakeholders in OZ areas
<b>Develop</b>	an OZ investment strategy: OZ Businesses, OZ Properties, or both
<b>Update</b>	economic development plans and zoning to align with targets
<b>Streamline</b>	local project approval processes and align with CEQA
<b>Create</b>	OZ Prospectus to market target projects to OZ investors



**"Opportunity Zones have the potential to be the largest infusion of private capital into disadvantaged communities in decades."**

*—Lenny Mendonca  
recently appointed Director of the Office of Business and Economic Development*

**"We also want to pair EIFDs with the Opportunity Zones. This is the Big Idea."**

*— Gov. Newsom  
January 10<sup>th</sup>, 2019  
2019-2020 State Budget Release*



**Governor on OZ legislation: "I'm still trying to get my arms around it....My original thought was let's focus with a sense of urgency on the two values that define this moment: issues of affordability and housing and on the issue of climate change."**

*— Gov. Newsom  
Opportunity Zones Investor Summit  
Stanford University, March 18, 2019*

# WHAT'S NEXT FOR OZ DEVELOPMENT

## Federal OZ Regulations

- Regs and guidance last released in October 2018
- Exec. Order established interagency council for OZ targeting and data collection
- Updated regs expected soon to address key issues:
  - affiliated parties test, business profits/location, original use, investment transfers



## California Legislative Changes to Aid OZ Development

- **Pair EIFDs with OZs** leverage earlier OZ investment with longer term tax increment (Budget, SB 128)
- **Eliminate 55% Voter Requirement for bond issuance for EIFDs**
- **Conform CA Income Tax** with fed. income tax sched. for **low/mod. housing** & **Greentech** (Budget)
- **CEQA Streamlining** for certain OZ projects to mitigate timing challenges (SB 25). **Prevailing wage?**