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Disastertunity: Rebuilding the Nation's Disaster Areas with Opportunity Zone Capital

Presentation for the International Economic Development Council

October 29, 2019

Disasters Defined

- Major Disaster is Defined by Robert T Stafford Relief and Emergency Assistance Act
  - Any natural catastrophe or, regardless of cause, any fire, flood, or explosion, in any part of the United States, which in the determination of the President causes damage of sufficient severity and magnitude to warrant major disaster assistance
- State Governors Initiate the Disaster Declaration Process by Requesting a Declaration by the President

Reference: https://www.fema.gov/media-library-data/1519395888776-af5f95a1a9237302af7e3fd5b0d07d71/StaffordAct.pdf pg2

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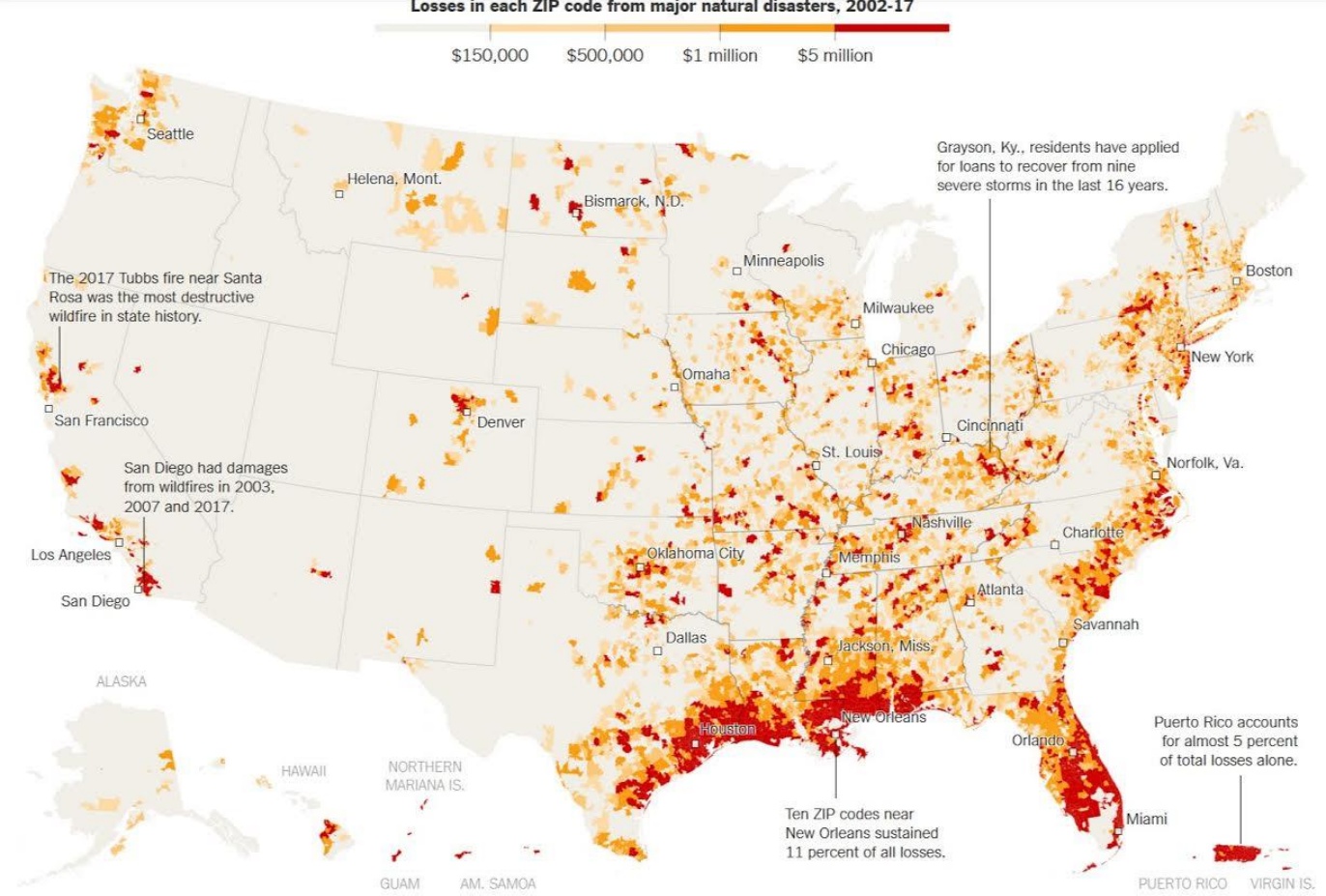

Reference: The Places in the U.S. Where Disaster Strikes Again and Again, The New York Times, May 24, 2018, https://www.nytimes.com/interactive/2018/05/24/us/disasters-hurricanes-wildfires-storms.html

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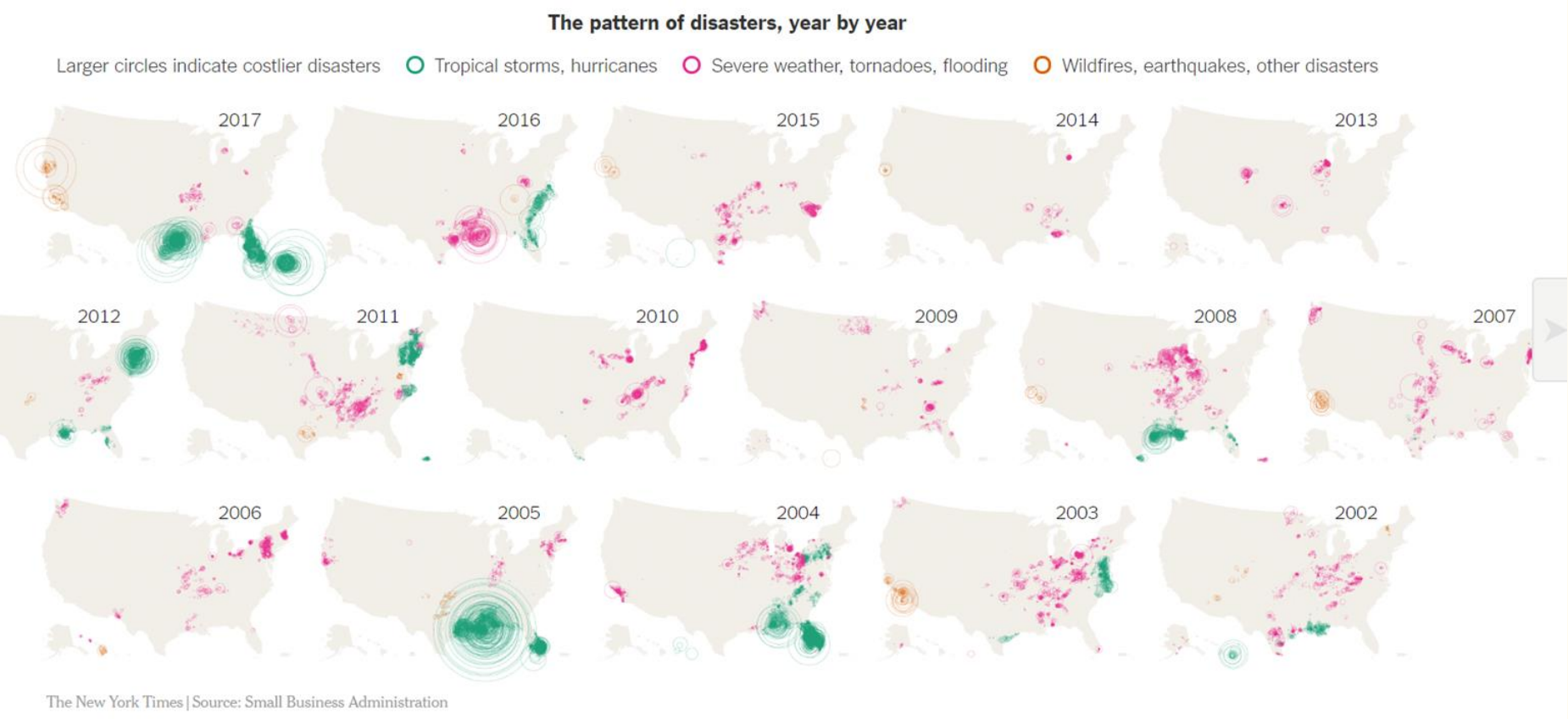

Reference: The Places in the U.S. Where Disaster Strikes Again and Again, The New York Times, May 24, 2018, https://www.nytimes.com/interactive/2018/05/24/us/disasters-hurricanes-wildfires-storms.html

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The 2017 Triple Whammy

- Three Major Hurricanes-Hundreds of Billions of Dollars in Damage (Harvey, Maria & Irma)
- Costliest Tropical Cyclone Season on Record
  - Six significant hurricanes formed
  - At least $300 billion in damage
- Began with Harvey, immediately followed by Irma then Maria
- Death Toll Significant but Hard to Quantify
  - Estimates range from hundreds to (tens of) thousands

Reference: https://en.wikipedia.org/wiki/2017_Atlantic_hurricane_season https://www.nhc.noaa.gov/news/UpdatedCostliest.pdf

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2017 Hurricane Damages and Aid

U.S. Disaster	Date	Total Estimated Damage	Total U.S. Government Outlays	% of Damage	Total Estimated Private Aid	% of Damage
Hurricane Harvey	2017 (August 25)	$125 Billion	$25.1 Billion	20.08%	$711.4 Million	0.57%
Hurricane Maria (PR)	2017 (Sept 20th)	$91.6 Billion	$59 Billion	64.71%	$161 Million	0.18%
Hurricane Irma (Fl)	2017 (Sept 10th)	$52.1 Billion	$4.3 Billon	8.25%	$81 Million	0.16%

Reference: Harvey info: https://www.texastribune.org/2018/01/30/how-much-has-been-raised-harvey-relief-and-hows-it-being-spent/ https://en.wikipedia.org/wiki/Hurricane_Harvey https://www.foxnews.com/politics/trump-pushing-for-6-billion-in-harvey-recovery-funding https://www.dallasnews.com/news/texas-politics/2019/06/12/texas-republican-chip-roy-slows-downhouse-procedural-moves-border-security-demands Maria aid info: https://www.fema.gov/hurricane-maria https://s3.amazonaws.com/cn-web-site/Charity+Navigator's+Hurricane+Maria+Study.pdf Irma Aid: https://money.cnn.com/2017/09/11/news/companies/corporate-donations-hurricane-relief/index.html https://www.fema.gov/news-release/2018/08/21/hurricane-irma-florida-one-year-more-3-billion-later

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Disaster Relief Programs

- Loans
- Tax Relief
- Tax Extensions
- Refinancing Options

Reference: https://www.benefits.gov/categories/Disaster%20Relief

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Opportunity Zone Tax Benefits Summary

- Section 1400Z of the Internal Revenue Code
- Similar to Sections 1031 and 1033 For Deferral of Reinvested Gain
- More Flexible and Powerful in Several Respects
- Nonrecognition of Gains Reinvested within 180 days in a Qualified Opportunity Fund ("QOF")
- Taxation of Those Reinvested Gains can be Deferred up to 7 Years
- Deferred Gains may also be Reduced up to 15%
- Tax Free Additional Gains When Held for at least 10 Years

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Opportunity Zone Business Property

- Tangible Property used in a Trade or Business
- From an Unrelated Party (20% Standard)
- During Substantially all of Holding Period, Substantially all Use in an OZ
- Original Use in the OZ Commences with the Taxpayer **or**
- Substantial Improvement of the Property

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What Are the Opportunity Zones?

- Original statutory standard same as for New Markets Tax Credits
  - Based upon poverty rate (20%) or Median Family Income (under 80%)
  - Contiguous tracts (must not exceed over 15% of MFI of the contiguous LIC tract)
- 8,761 throughout the United States and Territories (Puerto Rico)
- 37% of the United States
- 35 million Americans
- Disaster Areas Not Explicitly Included
- Coincidentally ***Substantially All*** of Puerto Rico and Much of Downtown Houston (Maria & Harvey Victims) Opportunity Zones

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Tax Benefits Timeline

Year 0		Year 1	Year 5	Year 7	Year 8	Year 9	Year 10
≤ 180 Days	Fund						
2018		2019	2023	2025	2026	2027	2028
	QO Fund Holding Period						
	Reinvested Capital Gain Tax Deferral Period						
Capital Asset Sale or Exchange	Reinvest Capital Gain in QO Fund		10% of Reinvested Capital Gain Basis Step-Up in QO Fund	5% of Reinvested Capital Gain Basis Step-Up in QO Fund	85% of Reinvested Capital Gain Included in 2026 Taxable Income	Pay Tax on 85% of Reinvested Capital Gain	Tax-Free Sale or Exchange of QO Fund Investment

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Qualified Opportunity Fund

- Entity used to invest in Qualified Opportunity Zone Property (“QOZP”)
- Broad Flexibility as to Entity Structure of QOF
- May be Structured as a Corporation or a Partnership

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Qualified Opportunity Zone Businesses

A Trade of Business in which Substantially all of the Tangible Property Owned or Leased by the Taxpayer is Qualified Opportunity Zone Business Property ("QOZBP")

At least 50% of Income Derived from Active Conduct and from the Opportunity Zone

Substantial Portion of Intangible Property Used in Active Conduct of Business

< 5% Unadjusted Basis of Property is Nonqualified Financial Property

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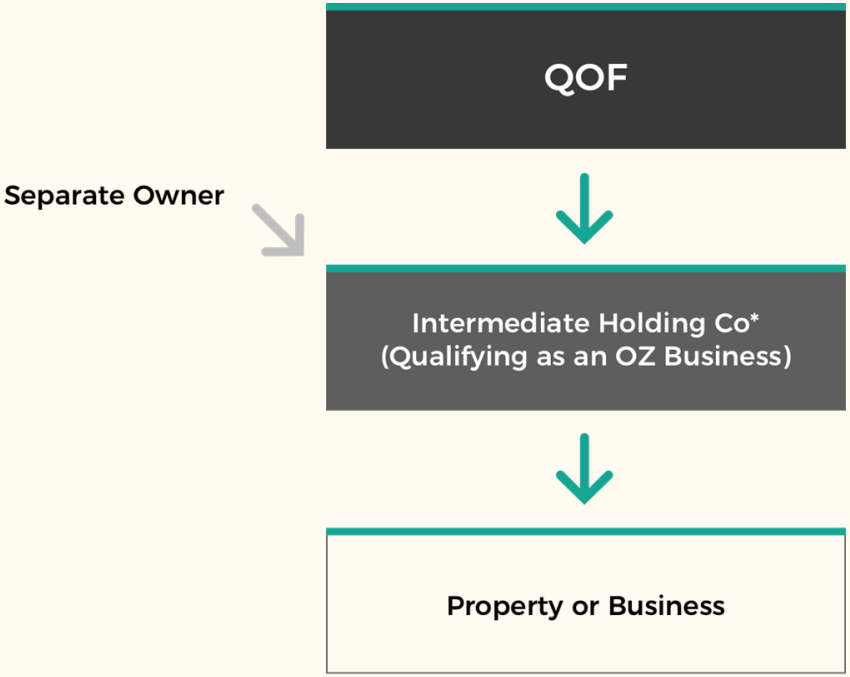
Basic QOF Structure



*** Develops a "written schedule" to use QOF investment proceeds over 31 months** (current proposed IRS regulations do not clearly apply this grace period to OZ Businesses not acquiring, constructing or rehabilitating tangible property)

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Pending Legislation

- Senate Bill 1000 “Disaster Opportunity Zones Act”
  - Grants an additional 25% of designated disaster affected census tracts in respect of 2018 disasters named in the Bill as Opportunity Zones (Hurricanes Florence and Michael and the 2018 Wildfires)
  - Does not include the 2017 Hurricanes (Harvey, Maria and Irma)
- House Bill 7242 “Disaster Recovery and Opportunity Act of 2018”
  - Grants up to an additional 5% of disaster affected census tracts as Opportunity Zones if they have been designated disaster areas
  - Includes any disaster regardless of date of occurence

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Puerto Rican Opportunity Zones

Reference: https://opportunitydb.com/tools/map/

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Opportunity Zone Activity in Puerto Rico

- All Opportunity Zone activity Currently in Initial Stages
- 98% of Island an Opportunity Zone
- Strong Local Government Support
    - Government Dedicating $400 Million Toward Opportunity Zones
- At Least 12 Qualified Opportunity Zone Funds Already Active

Reference: https://www.bloomberg.com/news/articles/2019-05-14/puerto-rico-may-shift-some-u-s-aid-in-opportunity-zone-projects
http://periodismoinvestigativo.com/2019/05/an-airbnb-boutique-hotel-opportunity-zones-arrive-in-old-san-juan/

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Gran Meliá Acquisition and Renovation

- Luxury Beachfront Hotel Closed in the Wake of Maria
- $120 Million Deal Signed Earlier this Summer
- 30 minutes outside of San Juan
- Tourist Centric Location
- Acquired by Royal Palm, Monarch and Aimbridge
- $72 Million Financed by OZ Real Estate QOF

Reference: https://therealdeal.com/national/2019/06/05/puerto-ricos-governor-touts-120m-deal-ozs-to-hotel-investors/

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Old San Juan Airbnb Hotel

- Historic Building in Old San Juan
- $16 Million to be Invested
- Close proximity to Fort San Cristóbal
- Tourist Centric Location
- Lifeafar QOF Acquisition/Developed by Lifeafar

Reference: http://periodismoinvestigativo.com/2019/05/an-airbnb-boutique-hotel-opportunity-zones-arrive-in-old-san-juan/

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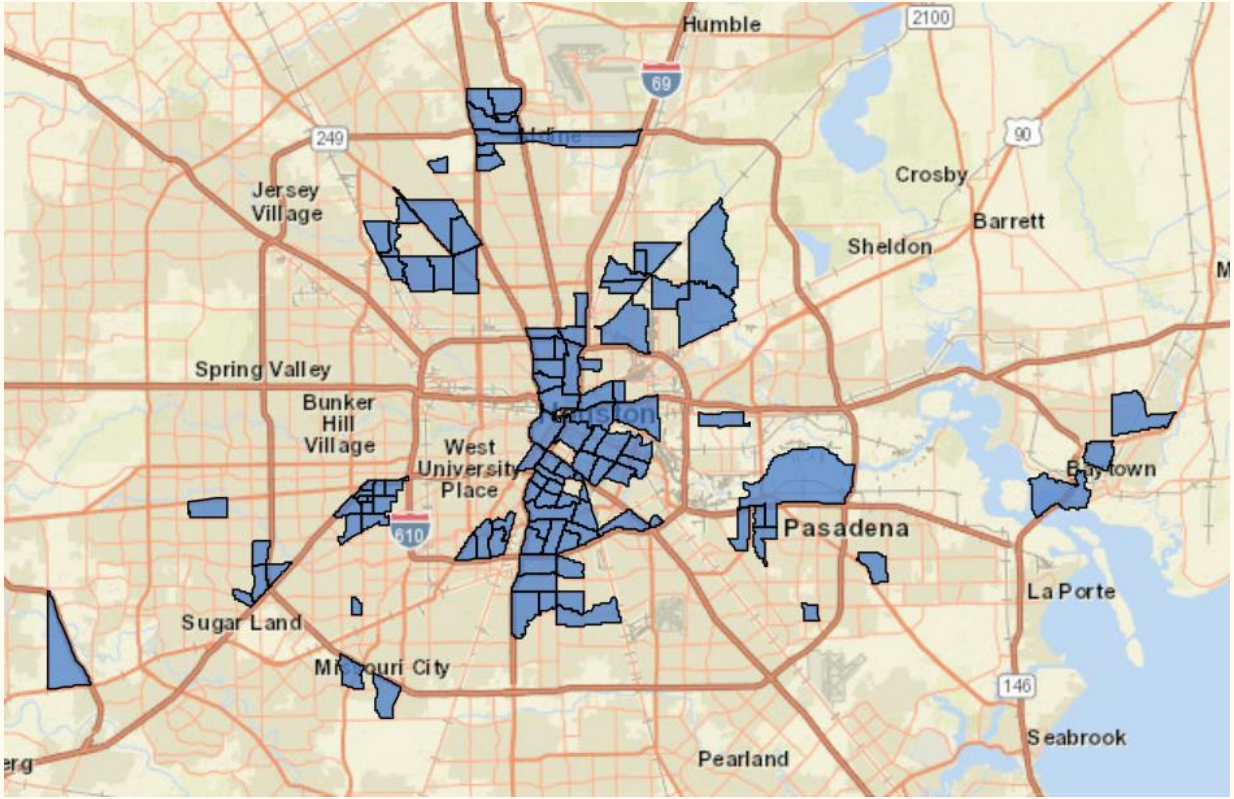
Houston Opportunity Zones



Reference: https://opportunitydb.com/tools/map/

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The Preston

- 414 Milam Street
- Multifamily Development Downtown
- $87 Million Opportunity Zone Capital Invested
- Rapid Raising of Capital
- Hines - Developer, Equity from Cresset QOF

Reference: https://www.bisnow.com/houston/news/opportunity-zones/how-the-deal-went-down-the-first-opportunity-zone-project-in-houston-98770

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Opportunity Zone Investment Sluggish

- Most Opportunity Zone Deals To Date Single Asset-Few Investor Multifamily or Hospitality
  - Can be built quickly; quality can be sustained; no pre-leasing required for financing; not dependent on long-term lease
  - Next development targets expected to be industrial and retail
- Timing Challenges for Widely Distributed Multi-Asset Qualified Opportunity Funds
- New & Complex Industry in Formation Stage
- Community Relationship Issues
- No Final IRS Rules - Expected By Year End
  - Careful potential investors can be turned off from taking the plunge
  - Huge impediment for non-real estate development investment

Reference: https://www.bisnow.com/houston/news/opportunity-zones/the-gold-rush-capital-investments-in-houstons-opportunity-zones-limited-to-sophisticated-investors-99893

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Opportunity Zone Capital Channels

- Family Office & High Net Worth Individuals
  - Very relationship based - hard to access as an outsider
- Retail Capital through Financial Advisors
  - Somewhat relationship based
  - Expensive
  - Highly regulated and long lead time
  - Favors income producing real estate
  - Once established reliable capital source
  - Good relationship for economic development professionals to have
  - Once established reliable capital source
- Insurance Companies
  - Not yet in the game
- Community Capital
  - Needs to evolve
  - Local and other banks need to come on board - CRA application will help
  - Community investors - needs a new state securities offering exemption

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CRA Application to Opportunity Zone Capital

- Banks Have Obligations under the Community Reinvestment Act (CRA)
- Banks Often Satisfy CRA Requirements through New Market Tax Credits (NMTCs) and Community Development Financial Institutions (CDFIs)
- It's Argued that an Opportunity Zone Fund May Qualify as a CDFI-Apply to the Treasury Department
- Office of the Comptroller of the Currency (OCC) Adopts Rules as to Investments that Qualify for CRA
- Efforts by Industry Groups to Have the OCC Adopt Ruled that Expressly Qualify Opportunity Zone Investment for CRA Credit

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Proposed Community OZ Fund Exemption

- From a Federal Viewpoint - Intrastate Exemption
- Focus on Community Projects Supported by Local Economic Development Agencies - If Reviewed and Supported Can Qualify as A Community OZ Fund
- Then Syndicator Can Offer Publicly to Only In-State Investors in a State Exempt Offering
- No Investor Net Worth or Income Requirement
- Investors Can Invest the Greater of $500 of 10% of Net Worth as Reported to the Syndicator by the Investor

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Attracting Investment to Low Liquidity Areas

- Opportunity Zone Investment Focuses on Value Creation and Sale
- Difficult to Attract Investment in Low Liquidity Areas
- Community Stakeholders Can Consider Proactive Mitigators to This Issue
- One Public-Private Approach Might be for a City to Offer an Equity “Put” After a 10 Year Hold
- Could Back the Put with a Letter of Credit

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Take Charge

- Develop an Opportunity Zone Marketing Plan
  - Create cohesive collaterals, both online and physical
  - Identify and target top service enterprises (e.g., CBRE) and investors
  - Attend major Opportunity Zone conferences - especially transactionally focused
- Create Pre-Approved Investment Opportunities
  - Advanced community approval and permitting
  - Create marketable deal packages complete with financial models
  - Line up available federal, state and local financial support
  - Consider means to advantage the investment, e.g., line up some tenants
- Engage Experienced and Connected Deal Professionals On and Aligned Basis
- Be the Preferred Partner and Opportunity Zone

Reference: https://www.bisnow.com/houston/news/opportunity-zones/the-gold-rush-capital-investments-in-houstons-opportunity-zones-limited-to-sophisticated-investors-99893

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Coasis Coalition Founder

Gerry Reihsen

Gerald J. (Gerry) Reihsen, III is the founder and chief executive officer of Coasis Coalition Companies PB LLC, a public benefit company that provides support, services and products to the Opportunity Zone ecosystem, including its (a) investment and other economic participants, (b) agencies and organizations that are historically dedicated to assisting under-optimized communities, (c) state and local economic development agencies, and (d) residents of those communities.

Gerry is a nationally recognized expert in the Opportunity Zone incentive ecosystem, speaking and writing on it and advising clients across the county. With Coasis Mr. Reihsen continues and leverages his rich career in corporate-securities law and in founding and building innovative business enterprises, both for-profit and nonprofit, including, among others, Behringer Harvard Funds, a real estate investment fund platform grown to nearly $12 billion in AUM globally, and Cristo Rey Dallas College Prep, a non-profit high school that serves families in low-income communities with both a rigorous college prep curriculum and a corporate work-study program that maintains a college acceptance rate for its seniors at well above 90%. Mr. Reihsen's professional expertise and experience are uniquely suited to lead Coasis as a "provider of picks and shovels" to the Opportunity Zone ecosystem and its various participants. See http://coasiscoalition.com and https://www.linkedin.com/in/gerry-reihsen.

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