



Opportunity Zones and the HOME Program

Webinar Overview

This webinar will review the use of HOME funds with Opportunity Zones.

The presentation is recommended to be used in conjunction with the “Using HOME and HTF Funds within Opportunity Zones” eGuidebook. Additional details are available in the eGuidebook.

The [Using HOME and HTF Funds within Opportunity Zones eGuidebook](#) can be found on the HUD Exchange.



Webinar Overview

Learning Objectives:

- As a result of this webinar, attendees will be able to:
 - Think strategically about using HOME in Opportunity Zones (OZs)
 - Identify investor motivations in order to recruit potential OZ investors and development partners
 - Identify and address key opportunities for using HOME in OZs
 - Identify and address key challenges when investing HOME in an OZ



Agenda

- Opportunity Zones 101 Basics
- The HOME Program 101 Basics
- Overview of Using HOME Funds within OZs
- Opportunities for Using HOME Funds within OZs
- Challenges to Using HOME Funds within OZs
- HOME/OZ Success Story
- Resources





Opportunity Zones 101 Basics

What are Opportunity Zones (OZs)?

- A tax incentive program established by Congress in the Tax Cuts and Jobs Act of 2017, administered by Treasury
- **Geographic locations** (low- and adjacent moderate- income census tracts) **designated by the IRS**
- Provides a tax incentive for investors to invest capital gains in economic development activities located in Opportunity Zones
- Returns to investors increase depending on length of investment (increasing benefits generated after 5, 7, and 10-year time periods)
- Goal is to spur private sector investment and job creation in economically distressed communities



What are Opportunity Zones Not?

- OZs are *not* a federal grant program
 - There is no application for OZ funding - instead, developers/owners of affordable housing must negotiate investment terms with an investor or fund
- Unlike LIHTC, capital from OZ investments is not capped
 - However, capital from OZ investors will *not* feasibly be the only source of funding for a project - still need other sources in the capital stack (debt, LIHTC, etc.)
- OZs do *not* target affordable housing projects - a wide variety of real estate projects and operating businesses can benefit



How do OZ Investments Work?

- Eligible taxpayers invest equity in a project located in an OZ
- Eligible taxpayers include
 - Individuals,
 - Corporations, or
 - Qualified Opportunity Funds (QOF)
- Eligible equity investments include investments in new or existing businesses, real estate, and business assets that provide market-based solutions to benefit the community



What is a Qualified Opportunity Fund (QOF)?

- Investment vehicle that files partnership or corporate federal income tax returns
- Is organized for the purpose of investing in OZ property or business
- Provides professionally managed investment services
- At least 90 percent of the QOF investments must fund eligible OZ investments



What Real Estate Projects are Eligible for OZ Investment?

- Investment must be in a **“Qualified Opportunity Zone Business Property”**
- Qualified Opportunity Zone Business Property:
 - **Was purchased after December 31, 2017**
 - Original use of property in QOZ commenced with QOF or QOZ business OR property was substantially improved by QOF or QOZ business.
 - During substantially all of the time the QOF or QOZ business held the property, substantially all of the use of the property was in a QOZ
 - Must be “substantially improved” within 30 months of acquisition
- OZ investments allowed in both new construction and substantial rehab of affordable housing
- **Affordable rental housing developments are an eligible “business” for OZ**



Affordable Housing Funding Can Be Combined with OZ Investments

- OZ investors are interested in projects that:
 - Offer best returns
 - Are financially viable
 - Reduce their risk
- Investments can be targeted for any type of housing:
 - Market rate
 - Mixed-income
 - Low-income housing
 - Preservation efforts
- OZ investments can be used in conjunction with public funds or with other investment vehicles



Additional OZ Resources

- [HUD Opportunity Zones website](#)
- [IRS's Community Development Financial Institutions' website](#)
- HUD toolkit for community leaders about OZ:
 - [Volume 1, October 1, 2019](#) - Introductory guide
 - [Volume 2, May 29, 2020](#): Local best practices and case studies.
- [IRS website with OZ Frequently Asked Questions](#)
- [Opportunity Zone Fund Directory within the NCSHA website](#)





The HOME Program 101 Basics

What is the HOME Program?



- The HOME Investment Partnership Program (HOME) is a *formula block grant* that provides annual allocations to state and local “Participating Jurisdictions” (PJs)
- Designed to create affordable housing for very low- and low-income households



What Do Potential OZ Partners Need to Know about HOME?

- Overview of HOME Participating Jurisdictions and Allocations
- Eligible Activities under HOME
- HOME Eligible and Ineligible Costs
- Eligible and Prohibited Fees
- Eligible Forms of HOME Assistance
- Project Review Requirements
- Key HOME Rental Housing Requirements
- Other Federal Requirements



Refer to the Using HOME and HTF Funds with Opportunity Zones e-guidebook for a Checklist of Key HOME Requirements to Review with Potential OZ Partners



HOME PJs and HOME Allocations

- HOME is a formula-based entitlement program
- Primary purpose of HOME is to provide affordable housing for low- and very low-income households
- Annual HOME allocations are distributed to eligible state and local governments (Participating Jurisdictions, or PJs)
- Amount of a PJ's annual allocation is based on the annual Congressional allocation, distributed through a need-based formula
- States always receive at least \$3 million



HOME Eligible Activities

- HOME has four main eligible activities:
 - **Rental housing: acquisition, new construction, or rehabilitation**
 - Homeowner (owner-occupied) rehabilitation
 - Homebuyer housing: acquisition, new construction, or rehabilitation, including direct assistance to eligible homebuyers to purchase homes
 - Tenant-based rental assistance (rental subsidy)



HOME Eligible Project Costs

- Hard and soft costs for:
 - New construction
 - Rehabilitation
 - Conversion
 - Reconstruction
- Improvements on HOME project site
- Refinancing with HOME-funded rehabilitation
- Acquisition
 - Vacant land
 - Improved and unimproved land (construction must begin in 12 months)



HOME Eligible Project Costs, continued

- Demolition (construction begins within 12 months)
- Relocation
 - Can assist all displaced households in project, not just those units that will be HOME-assisted
- Initial operating reserve during lease-up
 - Limited to 18-month rent-up period
- Predevelopment costs



HOME Ineligible Costs/Prohibited Activities

- Project reserve accounts/operating subsidies
- Rental assistance for existing Section 8 housing
- Assistance to a project previously assisted with HOME funds
- Acquisition of property owned by the PJ
- Costs that are not directly allocable to HOME
- PJs cannot charge servicing, origination, or other fees for the purpose of covering costs of administering HOME.
- View the [HOME regulation at 92.214](#) for a complete list of prohibited activities and costs.



Forms of HOME Assistance

- Loans
- Grants
- Interest subsidies (interest rate write-downs)
- Loan guarantees
- Equity investments
- Construction financing
- Permanent financing
- Other forms of assistance, with HUD approval



Key HOME Rental Housing Requirements



- Income Restrictions
- Rent Restrictions
- Affordability Period
- Property Standards (completion and ongoing standards during Affordability Period)
- Administrative Requirements
 - Written Agreement
 - Reporting and Recordkeeping



Affordability Period

| Per Unit HOME \$ | Min. Affordability Period |
|--------------------------------|---------------------------|
| <\$15,000 | 5 years |
| \$15,000 - \$40,000 | 10 years |
| >\$40,000 | 15 years |
| New Construction / Acquisition | 20 years |
| Refinancing with Rehab | 15 years |



Other Federal Requirements

- Nondiscrimination
- Affirmative Marketing
- Environmental Review
- Displacement, Acquisition and Relocation
- Labor
- Lead-Based Paint
- Conflicts of Interest
- Violence Against Women Act

For more information on Other Federal Requirements, please visit this section of the e-guidebook at [Key HOME Rental Housing Requirements - HUD Exchange](#).



Additional HOME Resources

- [Building HOME Online Training](#)
- [HOME Final Rule: 24 CFR Part 92](#)
- [HOME Program HUD Exchange Rental Housing topic page](#)





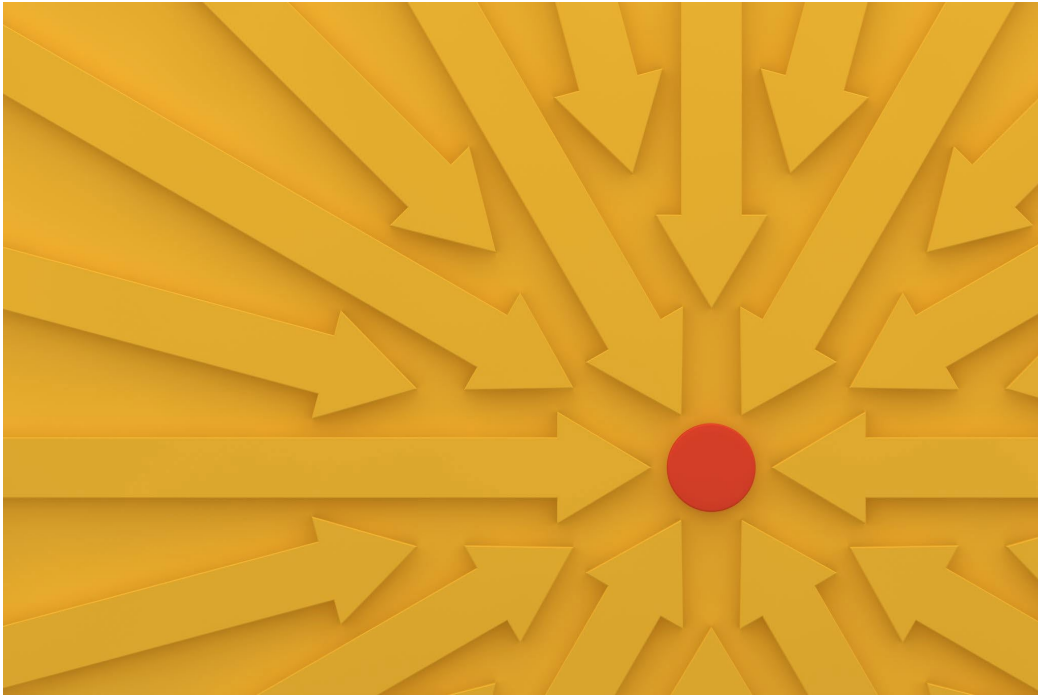
Overview of Using HOME within OZs

What Types of Projects and Activities Can PJs Seek Out in the OZ?

- Utilize OZ-generated capital to develop affordable housing in the OZ
 - By utilizing OZ-generated capital, PJs can limit the amount of HOME investment in the project
- Direct Investment in Housing Projects - factors to consider:
 - Large- or small-scale rental projects are eligible
 - HOME can help finance a wide range of rental and homeownership housing
 - Collaborate with large employers/institutions to generate mixed workforce housing opportunities



What Types of Projects and Activities Can PJs Seek Out in the OZ, cont'd



- Coordination with other agencies and investors to concentrate investments in the OZ
 - Identify Economic Development activity that complements/supports existing HOME housing and its residents
 - Target local capital improvement funds to upgrade existing infrastructure, to maximize the redevelopment impact in the OZ



How Can a PJ Find Potential OZ Investors Who Might be Motivated to Invest in HOME Projects?

- Identify and recruit high wealth individuals or corporations with capital gains to invest in the OZ(s)
- Work through established QOFs
- Use databases to identify organized QOFs including:
 - [NCSHA OZ Fund Directory](#) - a database of publicly announced QOFs formed to attract investment in OZs
 - [Opportunity Zone Database](#) - a private entity that lists all QOFs that choose to register
- **Consider what motivates the OZ investors:**
 - **They have capital gains and want to invest these gains in OZs to minimize their tax burden**



Motivation to Invest

Profit Driven Investors

- To maximize return/benefit, investor must remain in a partnership for minimum of 10 years
- Consider an investor's exit strategy during project underwriting if affordability period longer than 10 years
- OZ investors will require higher returns than LIHTC investors are willing to accept

Mission Minded Investors

- May have expertise and experience in community involvement
- May be more willing to make a long-term commitment
- There are mission minded OZ investors and QOFs that work nationally or locally/regionally. Examples of two national mission-based organizations investing in OZs are:
 - [Local Initiatives Support Corporation \(LISC\)](#)
 - [Enterprise Community Partners](#)





Opportunities for Using HOME Funds in OZs

What Steps Can PJs Take to Identify OZ Investment Opportunities?

1

Learn about OZs in PJ's Jurisdiction

- Identify OZ boundaries
- Determine whether any proposed HOME projects in the PJ's pipeline are in an OZ
- Encourage developers to seek OZ equity as gap financing in pipeline projects located in OZ, if needed
- PJs that administer competitive programs can often rely on developers to seek out projects



Assess Viability of Affordable Housing in the OZ

2

Assess Viability of Affordable Housing in the OZ and Attractiveness to OZ Investors

- Evaluate opportunities for affordable housing investments in the OZs during planning/consolidated planning process
- Use charrettes and other planning tools to seek input on strategies for future investments within OZs



Identify Sites and Potential Partners/Investors

3

Identify Specific Sites for Affordable Housing Development

- Identify vacant land and deteriorating structures in need of rehabilitation that are appropriate for residential use and situated in an OZ
- Consider what type of housing makes sense (rental, homebuyer)
- Perform preliminary calculations to determine site feasibility for HOME-assisted housing
- Assess site control options



Potential Development Partners

4 Identify Potential Development Partners and/or OZ Investors

- OZ investor seeks investment opportunities but is not the developer
- PJs may identify project sponsors and/or developers and then PJ can facilitate introductions to OZ investors
- Most OZ investors are driven primarily by profit or mission



Collaborate

5 Collaborate to Structure Feasible and Compliant Projects

- Key team members must understand various funding sources, motivations and requirements
- Combine education about the program with promotion of the benefits of HOME
- Educate staff/other development partners about the OZ, how it works, and what motivates the OZ investor
- The PJ and developer should be prepared to efficiently execute the applicable federal requirements



How Can PJs Create Incentives for Potential Partners to Construct/Rehabilitate Affordable Housing in OZs?

- Give preference/additional points to projects that leverage OZ equity investments, when PJ utilizes competitive funding process
- Seek site-specific proposals that align with the comprehensive strategy in the PJ's consolidated plan
- Engage other jurisdiction offices to develop package of public sector support, such as waiving fees or requirements, offering density bonuses, and/or deferring taxes.
- Emphasize minimization of risk created by including HOME into the financial package:
 - Lowers amount of private debt required for the project
 - Helps to ensure more sustainable project financing
- Emphasize experience administering and complying with federal programs/requirements





Challenges to Using HOME Funds in OZs

Challenges and Implications When Using OZ Investor Equity in HOME Project

| The Challenge | How PJ Can Address the Challenge |
|---|--|
| Learning curve with new program | <ul style="list-style-type: none"> • Identify new partners and opportunities for new capital resources |
| Projects with multiple funding sources and multiple requirements can be complex | <ul style="list-style-type: none"> • Communicate needs, constraints, requirements clearly • Negotiate project details carefully • Develop detailed schedule and roles • Review progress frequently |
| OZ investors unfamiliar with high PJ involvement and approvals | <ul style="list-style-type: none"> • Execute federal requirements efficiently • Emphasize PJ's experience with executing and complying with federal requirements |
| Affordability periods for HOME are likely to exceed OZ investment periods | <ul style="list-style-type: none"> • Discuss long-term affordability requirements up front • Seek projects where the affordability period matches the investment period |
| 180-day OZ investor deadline may conflict with PJ's project review period | <ul style="list-style-type: none"> • Orchestrate project reviews to ensure timeliness • Seek QOF investments where investors have already met the 180-day deadline |
| High rate of return may not be realized in affordable housing projects | <ul style="list-style-type: none"> • Work with mission minded investors • Consider mixed use or mixed income projects that may foster higher returns |



Coordinating Multiple Funding Sources

- Funding sources frequently include:
 - First mortgage lender
 - PJ providing soft debt from HOME resources
 - Third-party equity investor
 - General partner or developer contributing equity
- Coordinating requirements of many funding sources presents challenges
- Partners should clearly communicate needs, concerns and requirements
- Project details need to be carefully negotiated, particularly when entities involved are working together for the first time



HOME Affordability Period Differs from OZ Investment Period

- Investors need to understand that the HOME affordability requirements are not negotiable
- Identify projects where the affordability period matches the investment period
 - Rental rehabilitation projects that require only modest rehabilitation, or that can secure additional funding to reduce the per unit HOME investment below \$40,000 will carry a shorter minimum affordability period (10 years or less) that coincides with the OZ investment period



Project Reviews and Timing Considerations

PJs, developers, and OZ investors will need to plan for and manage these timing considerations for an equity investment to be effectively executed:

- Investor has 180 days to invest an eligible gain
- Each financial partner must underwrite the feasibility of a project to assess its own risks
- PJs cannot commit HOME funds until all funding sources are identified, and all pre-commitment reviews are completed



Project Reviews and Timing Considerations cont'd

- Typically, HOME funds must be committed to a project within 24 months of the PJ's receipt of its HOME allocation
- Amount of HOME award will be finalized after all other sources are committed
- Developers should develop a pro forma total development cost based on assumptions of the OZ investment and other project financing
- Developers may have to apply for HOME resources based on the period specified by the PJ
- If a project will include LIHTCs, developer must apply during the period determined by the state agency administering the LIHTC program.





HOME-OZ Success Study

Ox Fibre Apartments – Frederick, MD

- 83 units affordable at 40-60% AMI
- Developed by Equity Plus
- Utilized 4% Low-income Housing Tax Credits and Historic Tax Credits

| Sources of Funds | |
|-------------------------------|-----------------------------------|
| Freddie Mac Debt | \$10,500,000 |
| LIHTC Equity | \$7,100,000 |
| Historic Tax Credit Equity | \$4,400,000 |
| Opportunity Zones Equity | \$830,000 |
| State and County Debt* | \$3,400,000 |
| Deferred Developer Fee | \$670,000 |
| Total Development Cost | Approximately \$27 million |

*Includes \$500,000 in HOME funds from MD CDA

More Information:

<https://www.ncsha.org/wp-content/uploads/Case-Study-Ox-Fibre.pdf>



Ox Fibre Apartments – continued

- **Why OZ?** Renovating an existing warehouse into a community resource had long been a priority for local leaders. Designation of site in an OZ helped EquityPlus secure capital to finance the project. Without OZ funding, the developer would have relied on additional, limited public funding which could have led to delays.
- **Why HOME?** HOME funds balanced the sources and uses and filled the gap in project financing. Without this source of funds, the project would have fallen short by \$500,000.
- **PJ Role:** Role of PJ was to underwrite, review, and execute a written agreement for the project to ensure compliance with HOME requirements.

Sources: ICF e-Guidebook, NCSHA, Conversation with Developer



Ox Fibre Apartments – continued

- **Lesson Learned:** Developer stressed that the key to attracting the necessary capital investment is understanding motivations of different equity investors and pairing needs to appropriate program (tax credits or avoiding capital gains taxes)
- **Limits of OZ:** Developer noted that OZ equity can provide roughly 5-10% of an affordable housing project's financing when HOME and LIHTC are also available. OZ investors typically desire market returns, which may limit the amount of equity they're willing to contribute.



Ox Fibre Apartments – Frederick, MD

Sources: ICF e-Guidebook, NCSHA, Conversation with Developer





Resources

Additional OZ Resources

- HUD Opportunity Zone [Website](#): resources & maps
- IRS [Final Regulations](#) and [FAQs](#): view the official regs
- EIG [Activity Map](#): view activities that have taken place in OZ's
- Lists of Opportunity Funds: [Novogradac](#) and [NCSHA](#)
- Building HOME – Training Modules
- Additional resources for mapping your OZ:
 - [Enterprise Opportunity 360](#)
 - [Policy Map](#)
 - [Urban Institute](#) Community Impact Assessment Tool
 - [Mastercard Inclusive Growth Score](#)

