FINAL TRANSCRIPTION

HUD – US Department of Housing and Urban Development: Opportunity Zones 101 for Public Housing Authorities
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SPEAKERS

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PRESENTATION

Moderator: Hello and welcome to today's webinar Opportunity Zones 101 for Public Housing Authorities. My name is James Reed from NDC's Training Division, and I'll be your moderator this afternoon. Our webinar presenter is Melissa LaFayette was a field director for NDC's West Technical Assistance Team. If you have not done so already you can download today's presentation and handouts tab with the control panel.

And please note that today's presentation is being recorded and that all participants are automatically placed on mute to eliminate background noise. We'd love to hear from you during today's presentation. If you have a question for our instructor, please feel free to send it to the questions tab at the bottom of the control panel. We will be answering questions at the end of the session and a follow-up webinar evaluation will be sent to you when the webinar concludes. We'd appreciate your feedback. Thank you for your participation. So, without further ado, let's kick things off by welcoming Melissa Lafayette.

Merrie: On behalf of Hunter Kurtz, Assistant Secretary of PIH, Felicia Gaither, Deputy Assistant Secretary for the office of field operations, and Erich Yost, Opportunity Zones Specialist with the Office of Filed Policy and Management, we welcome you to the Opportunity Zones 101 for Public Housing Authorities webinar. During this hour together PHAs will gain an understanding of the basics of OZ, what they are and how they work.

We will also hear about ways PHAs across the country have engaged with Opportunity Zones. PHAs will also get information on identifying and leveraging federal resources within Opportunity Zones. Thank you so much for your attention, and we hope you find this webinar helpful.

Melissa

Thank you, Merrie. And hi, my name is Melissa LaFayette, and I'm a field director with the National Development Council based in Seattle. I apologize if you could hear some background noise. There's a siren going by my office. NDC is a national nonprofit organization that was founded in 1969 with the mission of increasing the flow of capital to underserved communities and how we achieve that mission has grown throughout the years but our core programs are technical assistance trainings and webinars, such as this, small business lending, as well as direct investing in projects through Federal programs such as low income housing tax credits and new markets tax credit. So, corridor work is helping communities utilize Federal tools for economic and community development. So, when we learned about Opportunity Zones when it came out in 2017, we knew that this was another Federal tool that we would want to help communities try to figure out how to utilize.

Alright, so our agenda for this webinar. We're going to start with an overview of Opportunity Zones, including what they are and who are the key players involved. We'll then touch on potential roles for public housing authorities in this space. We'll then go into more detail on how Opportunity Zones work including investor benefits and qualified opportunity funds and then we'll have Erich Yost of HHD who is going to present on some of the federal tools that provide a National benefits to project in Opportunity Zone and then we'll end with a couple of case studies on how some public housing authorities have already started to engage with Opportunity Zones and provide some takeaways from interviews with six housing authorities across the country that have already done some work with Opportunity Zones.

And these slides will be available for distribution after the webinar. You'll have access to the materials on these slides as well as the link to more resources that are dispersed to throughout the slides.

All right, so we're going to start off with the basics of what our Opportunity Zones. I'm sure you've all heard a lot about them. So, Opportunity Zones are really just geographic locations. They're low income census tracts that were designated by Treasury and we'll talk a little bit more about that designation process later. So, if the investor invests capital gains - so money that they've earned from selling and asset - into either real estate projects or operating businesses and Opportunity Zones, and they follow all the rules. They can receive some tax incentives that will go into more detail later.

Opportunity Zones was established by Congress in the Tax Cuts and Jobs Act of 2017 and is administered by Treasury. The rules and regulations that were referring to in this presentation are out of Treasury as opposed to HUD.

And while we're talking a lot about investor benefits, the intent of Opportunity Zones is to benefit communities. So, it was developed in recognition that different locations across the country have received vastly different levels of investor attention and capital. So, Opportunity Zones is intended to incentivize investors to take money that's sitting in Wall Street - an unrealized capital gains - and put those dollars to use in projects in lower-income communities where they typically haven't invested before. It's important to note here that Opportunity Zones as an initiative is still relatively new and it's still evolving. So, as I said, it was introduced in 2017. The designated Opportunity Zones were selected in 2018. In 2018 and 2019, we received two sets of draft regulations from Treasury and IRS, and then Treasury released final regulations in December of 2019. So, the marketplaces still really getting started and it remains to be seen the benefits that accrue from Opportunity Zones.

Well, it's helpful to talk about what Opportunity Zones are, I found that it's sometimes potentially just as helpful to talk about what they aren't. So, Opportunity Zones isn't the Federal grant program. It's a tax incentive for an investor to invest equity into projects because it's a tax incentive. It's monitored by the IRS.

Second is that there isn't an application for Opportunity Zone funding like many of our Federal grant programs. If you're a project or if you are if you have a project that seeking investment capital or if you're an investor looking for projects, there's no official mechanism to apply for Opportunity Zone capital. It requires a relationship between the person with the money and the person or the group with the project.

Third is that capital from Opportunity Zone investment isn't going to be the only source of funding for a project. Many projects are still going to need other sources in the capital stack, whether that's debt or other Federal incentives or tax credits such as low-income housing tax credits. That's why it's really important at the community level to organize and cultivate those other funding sources.

And then finally Opportunity Zones isn't just for housing projects. A wide variety of commercial real estate project and operating businesses can also benefit from the incentive. So, we've seen a lot of early investment in housing, but we've also seen Opportunity Zone capital put to work in projects that fund hotels industrial facilities business incubators a lot of other different types, which is what sets it apart from a lot of other Federal programs that are targeted at a specific asset class.

This slide shows the census tracks that were designated as Opportunity Zones. There's about 8,700 of them scattered across the country in both urban and rural areas. Because they're based on population, some of these census tracts are tiny -- one in a very densely populated city and other are geographically much larger. You can click on the link. I know it's really hard to see the individual zones in this map. The link will take you to HUD's Opportunity Zones website where you can actually zoom in on your specific area.

These census tracts were nominated by the Governors of each state and approved by Treasury in 2018. Eligibility for Opportunity Zones status was based on income and poverty levels, and each state was able to designate 25% of their eligible census tract. So, not every census tract that met the qualifications for Opportunity Zones was actually designated as an Opportunity Zone. And these are set in stone based on the census tract boundaries at the time of designation and they're set for 10 years.

And Governors were given leeway in how they selected tracks to nominate them as Opportunity Zones. So, some solicited applications. Others asked municipalities to select track, and others were some combination. For example, where I work in Washington the way they did it was each County was allotted up to five census tracts which were recommended by the County's Economic Development Organization. And so up to five, based on the number of eligible tracts. And each federally recognized tribe was allotted one census tract and then the remaining could be nominated through a competitive process where cities, counties or housing authorities, tribes, or Port District could nominate census tracts?

This slide shows some of the important players involved to make Opportunity Zones really work in communities. As I said before, it takes a direct relationship between an investor and a project, but there are many different players needed to cultivate those projects that are important to communities. Those are the players at the top.

You also need players that provide additional capital for Opportunity Zone projects. So, like I said Opportunity Zone capital won't be the only source in projects. We still need banks, CDFIs, foundations, and Federal programs involved.

You need those that help connect investors to projects and get the deals done. So, those are the deal makers or matchmakers on the bottom right. And then of course, we need the individuals and organizations that are going to implement and develop potential projects or start businesses in Opportunity Zones. So, depending on the type of work that you already do housing authorities could potentially have many roles in this ecosystem. The one thing during our interviews with housing authorities, was that it's really important to play to your strengths. So, thinking about as a Housing Authority. What is the role that you already play? Where do you add value in your community and how can Opportunity Zones potentially enhance that?

Here are some potential roles for housing authorities based on what we've heard. One is potentially as a project developer. So, some housing authorities develop housing themselves. Opportunity Zones capital could potentially be one portion of their capital stack and it can work alongside low-income housing tax credits and other Federal and local sources of funds.

Another potential role is as a convener. Many housing authorities are directly involved in their communities. They know what their communities need, and they know all the different stakeholders involved. As anchor institutions, they can help bring those people together, educate around what Opportunity Zones are, and organized around a community strategy as well as connecting those different partners to facilitate project development.

Another role is as an advocate. Public housing authorities can participate in community Opportunity Zones activities. Again, making sure that Community voice and values are included in the conversation. Then fourth is potentially as a landowner. So, housing authorities could potentially sell or lease land that they owned in Opportunity Zones to projects that would use opportunity zone capital for construction of potentially workforce housing commercial space or other mission align projects that are going to benefit the communities that they serve. And those are just a few potential roles. They're certainly not exhaustive.

So now we're going to move into what are the investor benefits that we've been talking about.

So, Opportunity Zones provides three primary incentives to investors. The first is a deferral of capital gains taxes until 2026 if you're still holding the investment. So, if you exit an investment before 2026, that deferral period would end. The second is a reduction of those original capital gains taxes that you owe by 10% if you hold your investment for five years before 2026 comes around and then 15% If you've already held it for seven years when 2026 comes around and we'll show a timeline in a couple of slides that will make that a bit more clear.

Then the third incentive, which is certainly the more speculative one because it won't be realized until at least 10 years from the time that an investor makes their investment, but it's potentially the biggest incentive that's getting a lot of investors talking about Opportunity Zones, and that's the exclusion of future taxes on an opportunity zone investment.

So, we'll pretend that I sold a stock and it had a capital gain of $100. If I were to just redeploy that normally without Opportunity Zones, I'd have to pay taxes on that $100 before I could invest it elsewhere but be investing a smaller amount. If instead, I reinvested it through an Opportunity Zone project, I could defer paying those taxes on my $100 of gain until 2026. I could reduce them. So, if I invested this year, five years would have passed by the time 2026 comes around so could pay 10% less on my taxes, and then say I invested it in a workforce housing project in an Opportunity Zone, and after 10 years have gone by, when I go to sell my investment, that $100 has increased to $500. I wouldn't have to pay capital gains taxes on that $400 gain. So, the nature of the incentive that Opportunity Zone provides in the third one in particular around the long-term appreciation. This is why Opportunity Zones Capital has typically flowed to projects that will generate Financial returns and appreciate in value. So, there's no benefit to having your appreciation accrue tax free if your project isn't going to is it going to actually appreciate.

Because the Opportunity Zones incentive only applies to capital gains, a Housing Authority would have to have a capital gain that they're taxed on in order to receive the investor benefits. So, that's relatively unlikely, but there are still ways that housing authorities and the communities that they work in can benefit.

So, first is that if Opportunity Zones, as an incentive, works as its intended to it will result in more readily available capital for projects as well as more affordable capital. So, the first one is looking promising. We've seen capital start to flow into places that it hadn't been. The second one really remains to be seen as the marketplace develops.

We've heard sort of anecdotally that a lot of opportunity zone investors, especially in the beginning stages when there's a lot of uncertainty, we're seeing this incentive as a way of mitigating some of their risk. So, it's encouraging them to invest in places that are maybe a little less familiar to them - maybe they view as being a little bit more risky - but the idea is that by receiving these financial invent incentives that would increase their return, they would also pass some of that benefit onto projects.

And then finally, even if a Housing Authority isn't directly involved in a project. In theory, Opportunity Zones' capital could help fund the building of additional housing whether that's workforce housing, market rate housing, and other economic development projects that would provide jobs and benefit the communities that you work in and the populations that you serve. So, I want to stress again that this marketplace for Opportunity Zones is new and evolving.

I heard from some housing authorities that their communities are fearful that Opportunity Zones' investment will result in displacement of current residents. Others were really excited to see a new housing and new real estate development and their neighborhoods. The time will really tell what the end result is to communities.

So now we're going to talk a little bit about how Opportunity Zones Investments work. You've probably heard a lot of acronyms, and we'll cover some of them at a high level. So, if you're considering actually investing in an Opportunity Zone project or receiving Opportunity Zone investment, make sure you understand all the regulations and consult with the professionals. So, find your CPA and tax attorney that really understand opportunity zones.

But at the high level, investors as I said invest capital gains - so money they've made from the sale of an asset - and they have to invest those capital gains through what's known as a qualified opportunity fund or QOF, which is really just a legal entity that self certifies with the IRS.

And then the QOF then invest those dollars either through stock or partnership interest in an operating business or directly into property in Opportunity Zones. The important thing here is that these are equity investments as opposed to debt or grant. The role for a Housing Authority here would really depend on how they've engaged with Opportunity Zones. As I said, they're likely not the taxpayer or the fund, but they may be developing the housing projects that the QOF invests its Opportunity Zones Capital into and this slide this provides a little bit more detail, but it's really showing the same thing. So, you have investor investing If You Follow the arrow into a qualified opportunity fund. An investor has to invest within 180 days from when they realize the capital gain into the fund and 90% of the opportunity fund's assets have to be invested in Opportunity Zone projects and the QOF has to report on that every six months to the IRS - showing that their capital is being deployed in qualified projects in Opportunity Zone. And then the QOF has three options of investing down to the project level either directly into qualified Opportunity Zones business property, or as I said indirectly by purchasing qualified Opportunity Zones partnership interest or stock in a qualified Opportunity Zones business or a QOZB. And 70% of the qualified Opportunity Zones business's assets have to be located in a zone. So, it can have some assets that are outside the zone or don't qualify. So, that would allow for a business that has maybe multiple locations but at least 70% of them are located in the zone.

Here are two potential models that we're starting to see to facilitate Opportunity Zones investment through opportunity funds. The simplest way shown on the left is a single investor investing directly into a single project.

So, their money still has to throw flow through an opportunity fund, but they could just create a fund specifically for their single project. So, I could create an opportunity fund called Melissa's opportunity fund and Invest that into a project that I've identified in an opportunity Zone.

So, the Housing Authority could potentially be the sponsor of that affordable housing projects that receives the capital. The more complicated version that we're starting to see more and more of is shown on the right. So, we've been hearing about funds being created and managed by Third parties in this scenario. Multiple investors are pooling capital gains investing them into the fund and then the fund is going out and looking for multiple projects to invest in. Some of those funds are focused on a specific asset type. So, maybe it's a fund seeking investment in commercial real estate or housing. Others have more of a geographic focus. So, some of the funds are looking at investing nationally. Some are looking at a specific region or a specific date or even a specific City. We'll have some links at the end of the presentation to some of the lists that have generate that organized opportunity funds by what type of investment they are seeking.

This slide we talk a little bit about the timeline invest for investing and receiving the Opportunity Zones benefits and this highlights why there's a bit of a sense of urgency on the part of investors to deploy their Capital into project as quickly as possible. But we always like to remind investors that at the end of the day, you want to invest your Capital into a quality project that's going to have the best chances for long-term success rather than investing as quickly as possible just to get the initial benefits of Opportunity Zone. So, 2026 is the year that everyone is talking about because that's the year when investors have to settle up with the IRS and pay taxes on their original capital game.

So, an investor would have had to invest by the end of 2019 to get the maximum Opportunity Zone benefits, which is the reduction in their original capital gains by 15%, as well as all the other benefit. However, investors have until the end of 2021, so a couple more years, and that's when the window closes to reduce their taxes on their original gain by 10% So, still a benefit. Still a reduction of their original capital gains tax liability.

However, investors have until mid-2027, using capital gains that they realize at the end of 2026 - about accounting for the time they have to actually find the qualified opportunity fund - they have until then in order to invest into projects in Opportunity Zones and receive that third benefit. And remember, that third benefit is potentially huge if they're investing in a project that's going to appreciate. That's still a long-term benefit to not have to pay capital gains taxes on the appreciation of that project. So, they may not receive the first two benefits of the deferral of their original gain and the reduction of that original gain, but the incentive isn't going away at the end of 2021.

So finally, some key points, if you're a Housing Authority that's considering using Opportunity Zone capital for a project. First is that Opportunity Zone Capital are equity investments. So, it's not a loan to your project. It's not a grant to your project. Second is that its market driven. So, it requires a relationship with an investor that has to really believe in your project and believe that you're going to execute and deliver on it.

Third is that Opportunity Zones as we've talked about how the incentive works, it really works best for projects that are going to appreciate over time and generate some sort of financial return for investors. And then fourth is to know the rules. You can read the long list of regulations. If you click on the link on this slide, but really, it's important to identify professionals that can provide the guidance because there's a lot more detail in making sure that your project qualifies for Opportunity Zones capital.

The opportunity Zone incentive is actually really well designed for market rate and workforce, multifamily housing projects. So, they're often considered less risky to investors and Commercial Real Estate or investing in something like an operating business and their place spaced. So, a housing project isn't it risk of getting up and moving out of an opportunity Zone like a business might be. There are really attractive option for investors. However, there isn't an affordability requirement attached to the Opportunity Zone incentive. So, if you're an investor primarily driven by achieving the highest return and long-term appreciation potential, as an investor, you're probably going to seek out the market rate project over affordable housing. Though, we have seen some affordable housing projects come online that have been using Opportunity Zones Capital as one piece of their capital stack. And those projects are often utilizing other incentives that are layered on to make the project pencil. So, two examples are linked here. And these were case studies that were developed by the Economic Innovation Group or EIG along with the National Council of State Housing Agencies.

So, I'll go ahead and click on the first one.

Before showing these case studies as its loading on my computer, I want to point out that Opportunity Zones Capital has typically been used for new construction as opposed to rehab of existing housing projects. And this is mainly due to the requirements that Opportunity Zone investment substantially improve an existing property. Subtreasury defined substantial Improvement pretty strictly is having to basically double the value of the existing building on the property.

So, if you were to purchase a housing development for a million dollars intending to rehab it. You'd have to invest an additional million dollars into that project. The new regs that came out at the end of 2019 allowed for a bit more flexibility. But really the intent is that they want to see new investment in properties that are improving them rather than someone buying up property and sitting on it for 10 years and then waiting for it to appreciate and then selling it.

Alright, so the first project is Parramore Oaks. This is a mixed income development with 96 affordable and 24 market rate units in Orlando, Florida. You can read more about this project if you click on the links in the slide, but I'll skip to the capital stack.

You can see the capital stack in impact of Opportunity Zones financing on this project. So, due to its location and the Opportunity Zone, this project attracted a really strong price for its 9% LIHTC, and it reduced, by tracking that much more equity, they were able to reduce the amount of debt that the developer had to take out. Those cost savings were ultimately passed through to tenants in the form of lower rent.

All right, and then the second case study is Ox Fibre. This is an adaptive reuse of a historic warehouse, turning it into 83 new affordable housing apartments in Frederick, Maryland. So, this project also used low income housing tax credits as well as historic tax credits.

Skipping to the capital stack and you can see that $830,000 the Opportunity Zone equity is a really relatively small portion of their capital stack, as compared to the total development cost of about $27 million most of which was financed with tax credit equity and debt. The Opportunity Zones capital in this case was really used to fill a financing gap that would have hindered the project's ability to move forward on time and potentially affected its ability to get done overall. So, those are just two examples of projects that have used Opportunity Zone capital.

And, even if Opportunity Zones Capital isn't ultimately used in a project simply by being located in an opportunity Zone, the project can potentially bring other benefits. In particular many federal programs offer preference points and other benefits to projects in Opportunity Zones and now is when I'll hand it off to Erich Yost with HUD's Office of Field Policy and Management because he's going to go into a lot more detail on leveraging these Federal resources that are available to Opportunity Zones. So, go ahead and take it away Erich.

Erich Yost

Thank you Melissa. So, what I wanted to cover here is by mere designation of these census tracts becoming Opportunity Zones, there are actually two bundles of benefits that come with the designation. The first bundle benefits is what you just heard, which is an opportunity for Opportunity Zone investors to invest in those designated census tracks. At the same time, the federal government has utilized these same designations to create a bundle of benefits to those particular locations as have states and local government as well. So, on the next slide, what I wanted to share with you, is there are currently over 371,000 public housing units in Opportunity Zones, and that represents about 38 percent of the total of public housing units. In addition, there's over 730,000 people that are living in public housing within Opportunity Zones. And that's about 39% of the total. And then finally, there's over 2,254 public housing developments within Opportunity Zones, which is again around 33% of the national total. So, public housing authorities have a clear portfolio of both people for providing services and properties that could benefit from Opportunity Zone investment.

In December 2018, the White House issued an executive order to establish the White House Opportunity and Revitalization Council with the focus of looking at these distressed communities across the country specifically on the designated Opportunity Zones. The Council is focused on providing guidance, coordination and measurement of the activities in these designated census tracts. On the next slide, you'll see that there are four key work streams that the White House Opportunity and Revitalization Council is focused on for designated Opportunity Zones. They range from economic development strategies to entrepreneurship, focuses on safe neighborhoods, as well as programs and grants around education and workforce development. Below you'll see the different action items and there's a series is of strategic goals under each one of those. So for example, in economic development, the federal government is focused on leveraging federal grants and loans in a much more integrated way to help with distressed properties or to build infrastructure and neighborhoods and to help attract private capital.

So, on the next slide you'll see what is HUD’s specific role in this? So HUD is one of the federal agencies that participates in the White House Opportunity and Revitalization Council and Secretary Carson serves as the Chair of the Council. HUD’s specific role is to help communities across the country to coordinate federal programs and investments from other agencies. We also have staff to these local efforts to attract private capital.

And we're focused on collecting data to assess the effectiveness of both investments being from our public federal funding that's going into Opportunity Zones as well as with the investors that are investing in these communities. So, what we're really focused on is helping your communities to build and activate an Opportunity Zone ecosystem and how you can utilize your local HUD office field staff, whether they're in the office of field policy and management collaboratively with our other departments at HUD, such as our Public and Indian housing group and our Community Planning and Development Department to name a few.

On the next slide, you'll see that one of the efforts of the White House Opportunity and Revitalization Council was to develop a website that would have resources for investors, local leaders, entrepreneurs, as well as updates about what's happening across the country and the best practices that are emerging and investments happening both by our public federal dollars and also through private investment.

One of the tools on the next slide you'll see is there is an Opportunity Zone Tool Kit Volume One that creates a Roadmap to Readiness for assisting communities to be engaged with building their Opportunity Zone ecosystem.

The Roadmap to Readiness covers four stages - understanding, aligning, establishing and partnering - and in the toolkit, it will walk through the different stages of the Roadmap to Readiness. We are currently working on a Volume 2 to the Opportunity Zone toolkit that will be much more detailed with examples of best practices from across the country, investments from a wide variety of places both rural urban and tribal and a variety of different product types that have received opportunity investment or received federal funds for their designated Opportunity Zones

On the next slide, you'll see one of the pages from the toolkit. This particular page is covering how you prepare for potential investments. We're really kind of showing you here a dashboard of the different indicators and systems you need to build to attract Opportunity Zone investment or to attract public and private funding from government resources. Specifically, on the left, you'll see the housing needs and market conditions. So, really what is the supply and demand characteristics in your marketplace and where does different types of housing need to be built and one type. This can help communities to address and work with Opportunity Zones investors to attract private capital.

On the next slide, you'll see where we are as of the end of last month. So, in January 2020, the federal government has now aligned and targeted over 200 grants and programs for designated Opportunity Zones. So, for example, over 160 grants have been allocated to receive preference points, priority consideration or bonus points, or other benefits, if that specific grant is working in an Opportunity Zone or is working with a Qualified Opportunity Fund or QOF. As Melissa had shared with you, in addition, there's over 40 programs across the federal government that have also been aligned to assist with Opportunity Zones. So, what I really wanted to stress here is that on the bottom left-hand side is a link to the local leader section on the Opportunity Zones website that HUD is created for the federal government. On a monthly basis, these listings of grants and the details about each of these grants and programs is updated. So, every month there will be a new posting with which grants are open, which ones have closed and may become available later, and all the new grants and programs that have these benefits. In total, over $8 billion in federal funds alone have been designated to potentially be leveraged in Opportunity Zones to both help to attract and create Opportunity Zone investment, but also to complement other neighborhood revitalization strategies in your communities and create economic development.

On the next slide you'll see an example of specific grants just from HUD alone. So, this is a list of all the grants that HUD has designated to have Opportunity Zones bonus points. So, if a Public Housing Authority is applying for any of these grants and is it able to apply, if you're targeting activities and Opportunity Zones, you'll be able to receive additional bonus points on your application. Those grants that are marked in red are those that are currently open. So, you can see there's quite a lot of grants that are still open with HUD and addition, there's grants that come available all throughout the year. So, I definitely recommend looking at grants.gov but also at the monthly updates on the Opportunity Zones website.

On the next slide, you'll see an example of programs. So, as I mentioned before, there are specific grants that are designated to Opportunity Zones and there are specific programs. So, these are ones that that you can utilize such as what Melissa had shared about FHA mortgage insurance, specialized underwriting, but what I wanted to really highlight was efforts that many Public Housing Authorities are doing around the rental assistance demonstration or RAD program. There are specific benefits if you're doing RAD transactions in Opportunity Zones, and we also have posted at HUD a frequently asked questions document on the rent increases and how they work in RAD.

So, on the next slide I wanted to share with you just some resources as well. So, as you're trying to understand the marketplace, and I know that Melissa is going to share some third-party resources in the private sector but these are a variety of websites that the federal government has created in partnership with other federal agencies or the private sector to help you to better understand your Opportunity Zones. So, for example, what I wanted to just highlight too on here is the Department of Commerce, the Opportunity Zone Toolkit, which is an effort with the economic development and administration, Indiana University and Kelley School of Business created kind of web-based tool that offers information on every opportunity Zone.

In addition, you can see the Department of Commerce and Department of Transportation has the way to look at the variety of assets in your Opportunity Zone. Next, I just wanted to cover on the next slide just a few of the national housing transactions to complement the discussion that Melissa had. So, for example in Charlottesville, Virginia, Habitat for Humanity purchased a mobile home park a couple of years ago, and then they're planning to build 800 units of housing - half of which are affordable housing - and they're being offered to current residents utilizing Opportunity Zones' funding. Or for example in Cleveland, Ohio, local healthcare system, Metro Health announced a $60 million direct Opportunity Zone investment into a 250-unit affordable housing complex in their neighborhood utilizing opportunity capital. In addition, just in Chicago, Illinois, there's a $100 million fund that is managed by a Chicago organization that acquired its first capital infusion and they're renovating and preserving over 3,300 low income units on Chicago's South and West Side.

I want to just dive into a little bit on a project specifically here in Los Angeles that I've worked with, SoLa Impact. They are a developer of affordable and workforce housing in distressed neighborhoods in South LA, and they actually created two Opportunity Zone funds. Their largest which was a $100 million to plan to renovate to acquire and to renovate over 2,000 units of affordable housing and also construct commercial space for New Opportunity Zone businesses and to locate them within Opportunity Zones and provide Opportunity Zone financing. For example, on the next slide, you'll see that in just a short time. So, will impact has now become the large land largest landlord of HUD Section 8 voucher holders in the City of Los Angeles by creating their own Opportunity Zones fund and leveraging the funding to buy acquire and utilize the Opportunity Zones benefits. One thing that I wanted to point out is they are working in collaboration. To make their units available to the local public housing authority. On the next slide, you'll see kind of the distribution of where some of these properties are that they've utilized Opportunity Zones funds. So, they been able to acquire over thirteen hundred units and renovated 424 of those units. As Melissa shared, one of the benefits of Opportunity Zones is yes, you can acquire property and you can renovate the property as long as you actually renovate the property - if you purchase it for a million dollars the land values $500 thousand, you just have to renovate the property for doubled the value of the building - not the land that's included. So, many of these properties can be renovated utilizing Opportunity Zone funds as was done in SoLa Impact's model. And what's really exciting about this, is 30% of the tenants that are moving into the housing that SoLa has acquired and renovated were tenants that were unsheltered homeless before coming in and so it's really exciting to be able to pair several of HUD programs several efforts, to help these distress community and 90% of these former homeless households remain housed in their units.

So, on the next slide, I just wanted to share with you my kind of fork four key areas of that Public Housing Authorities can be involved with Opportunity Zones. So, as I mentioned there's over 202 programs and grants that you can utilize for residents in your HUD assisted households or provide services to your public housing authority clients by leveraging and applying for these federal grants. You can also leverage the federal programs with Opportunity Zone benefits for activities and programs for your clients and customers and as a Melissa shared, you can use Qualified Opportunity Funds or QOFs in the capital stack for many different types of projects. A then qualified Opportunity Zones are Qualified Opportunity Funds can also be used for broader community needs to benefit local residents from infrastructure development to hospitals to public buildings and a wide variety of commercial real estate that has already been used throughout the country to attract and to have private capital and Opportunity Zone Capital invested in your communities for the residents you serve in with your public housing authority. So, from that, I'm going to turn it over to Melissa to continue on with some case studies.

Melissa Awesome. Thank you so much Erich. That was really helpful in outlining the vast amount of federal resources that have aligned with Opportunity Zones. I think the key word there is leverage. So, making sure you're aware of the resources that can link up with Opportunity Zones and leverage them to get projects done that are going to benefit residents in their communities. So, thank you.

All right. So, as I mentioned at the beginning of this webinar when we were starting to do some research, we set up interviews with about six housing authorities that we identified as having already engaged with Opportunity Zones in one way or another. I'll present case studies on two of those housing authorities and then talk a little bit about some of the takeaways from conversations with all six of those housing authorities.

The Metropolitan Development and Housing Agency or MDHA in Nashville, Tennessee really took an active role during the Opportunity Zone designation process - so note that the governors of each state had flexibility and how they nominated census tract. In this case the MDHA put together an application for census tracts in Nashville and provided that to the governor and tracked that application through its eventual nomination. In addition, early on, MDHA researched Opportunity Zones and informally started acting as a resource for potential players - advising folks on how to take advantage of this incentive. It also acted as somewhat of a broker connecting investors in their community to potential projects that they already know about. This is a role that they were well suited for. As I mentioned in the beginning as being really important.

So, the MDHA runs the development district and does community program development. So, individuals would already be calling them looking for properties. They already know what's going on in their community and what developers are seeking investment capital. So, Opportunity Zones was an added layer to the work that they were already doing.

The MDHA has looked at using Opportunity Zone capital as a source for some of their own projects, but they haven't quite gotten it to pencil out. This was the theme that I heard from many of the housing authorities - that they were still trying to figure out how to make it work for a specific project. So, as the EIG case studies as well as the list of projects that Erich mentioned, they do show that it is possible.

The MDHA did however, provide project-based vouchers for a mixed income housing project that at least at the time of this case study, it was planning to use Opportunity Zones capital. So, in this project, 50% of the units were affordable at 50% of the area median income, and those were financed by LIHTC and those project-based vouchers provided by the MDHA. The

Opportunity Zones capital when layered in was going to enable all the property to set aside 30% of the remaining units at below market rent to provide workforce housing.

The second case study is on Unison Housing Partners in Adams County, Colorado, and they knew early on that as an anchor institution in their Community, it was really important for them to take an active role in teaching others about Opportunity Zones. From the beginning, they saw its potential as a significant tool for economic and community development and they decided that it was important for them to understand and share about it - both its pros and its potential cons. Unison then became known early on is an expert and as a resource in their community and uniquely, they really saw it as an opportunity to spur collaboration between public and private players in the community. So, as such they've taken on the convener role hosting a symposium in early 2018 with neighborhood stakeholders. They've also acted as advocates through their network, encouraging the county to create a task force that would eventually pull in economic development professionals, community organizers, banks and investors to figure out how to make Opportunity Zones work in Adams County. And then finally Unison owns, developed, and operates its own real estate project and, while similar to MDHA, they have not yet completed an Opportunity Zone project. So, they've certainly looked at it. They do see its potential to be a resource for projects. I thought it was interesting. They saw its potential to fund non-housing projects that would maybe generate revenue for their affordable housing projects. So, being creative about how they could potentially utilize this incentive.

And then finally some of the main takeaways from the interviews with all of the housing authorities as well as other folks working in affordable housing that we've spoken to thus far in our work in Washington. First is play to your strengths. We talked we've mentioned this several times. Housing Authorities have been involved in Opportunity Zones in a really wide variety of ways. There's no single set role for a housing authority and there's no one way to get involved. Think about what you're already doing and how can you leverage Opportunity Zones to do it better or expand your impact?

Second is the importance of considering the trade-offs with Opportunity Zones. So, several of the housing authorities that we spoke with mentioned that there can sometimes feel like there's a mismatch between the different partners' priorities and this can create a challenge. Developers using Opportunity Zones Capital, whether that's a Housing Authority or anyone else, they need to evaluate the trade-off between profitability - so the returns that investors may be looking for - and their mission of providing affordable housing.

Third is that knowledge is power. So, several of the housing authorities own land in Opportunity Zones or knew other organizations that did, and they were asked about that designation from potential buyers – that knowing what their status as an Opportunity Zone meant was critical to them being an active player.

Fourth is to pay attention to hidden opportunities. So, for one Housing Authority that we spoke to simply becoming known as an expert in Opportunity Zone has built a lot of community trust and it open doors to other opportunities and sources of capital for their projects.

Fifth is that the nature of Opportunity Zones as a private investor incentive creates a unique potential for new partnerships. So many housing authorities see this as an opportunity for private developers and public or nonprofit entities to converge. So, while they may have somewhat different perspective and maybe different priorities, there can often also be common ground that creates opportunities for new and innovative partnerships and partnerships and projects. So, one idea that i heard was the potential to use these new Opportunity Zones development partnerships to use project-based vouchers as a way to deconcentrate racially and ethnically concentrated areas of property created by public housing. So, looking at the potential to build housing in other census tracts or the addition of workforce and market rate housing in Opportunities Zones which are often which are low-income relatively low-income census tract.

Then the last takeaway is to keep learning. The marketplace is still evolving. So, there are many more lessons to learn and many more opportunities to get involved. Opportunity Zones is, at the end of the day, just an incentive that you may or may not directly use as a Housing Authority but the opportunities to leverage Opportunity Zones whether that's aligning with federal resources or benefiting from collaborations with new partners or something completely different that we haven't come up with yet. What I've heard over and over again is that there's this sense of overall interest in opportunity and innovating in ways that will at the end of the day increase quality of life for communities that it's intended to. So even if this is the first that you're really starting to get your feet wet in learning about Opportunity Zones, it's not too late to leverage Opportunity Zones and find ways to bring in partnerships and attract capital to your housing projects.

This slide has a couple of final links to some additional resources that complement some of the federal resources that Erich provided in his slides. So, there's the federal ones at the top. So, the Opportunity Zones website, which has a ton of resources and maps for both investors as well as the public sector. The second are links to the IRS Federal Regulations and their frequently asked questions. Third, the Economic Innovation Group created an activity map where you can click on your state or region and view activities that have already taken place in the Opportunity Zones. So, see what kind of projects are already happening in your area. And then the fourth is a couple of links to lists of opportunity funds, and these are all self-reported. There's no requirement if you create an opportunity fund to broadcasts that publicly, but many funds are seeking investors and seeking projects and have really only publicized what they're looking for on these couple of websites. And then finally there's a bunch more resources for mapping your Opportunity Zone and looking at data in your in your zone.

All right, and this is the email address if you have additional questions that may come up after this webinar that you can provide to HUD. We will be monitoring it and providing answers to questions that come up after this and I'm happy to see if there are - I'm going to go through the chat box and see if there's any quick questions - I know we're at the top of the hour.

All right. It looks like we don't have questions in the chat box. So, if you come up with any after this presentation just send them to this email address and we'll make sure to get you answers. So, now I'll hand it back to Meri to close this up

Moderator Melissa, quick question. Is this data or information related to the increase of LIHTC equity flash pricing for projects located in OZ designated areas? If so, how much additional equity was raised in those OZ areas?

Melissa So Erich may have some thoughts on this. I haven't heard of any official data on changing in pricing for tax credit equity. I know with the project that was mentioned in the case study, I'm not sure if they provide the number for the potential price that they would have gotten without the Opportunity Zone incentives, but you could probably compare that to what other prices projects in the area received maybe they weren't an Opportunity Zones – I haven't looked that up yet. I think it depends on whether the investor that's investing in your tax credits has a use for the Opportunity Zones' incentive. So, if they have a capital gain that they want to realize and defer those taxes on, then this could potentially be something that would add though - they would incorporate into their pricing. But if it's an investor that doesn't have a capital gain the incentive may have left used for them and so may not affect their pricing.

Erich Yeah, and I would just add to what Melissa said is that you know, it all depends on where the Opportunity Zones funds are coming in. If they are or the same investor as the LIHTC investor, then there's obviously different pricing methods and models. Or if it's an investor that has is more interested in ensuring that it's a larger portion of the capital stack, it can affect pricing. So, it varies project to project but there definitely has been a change in pricing depending on how much Opportunity Zone fund investment comes into the investment, but it varies project to project.

Moderator So yeah, that was the only question that I've seen come through and actually just one here from John Monroe. If the tax benefit deadline is December 20 21, is that the end of the program?

Melissa Yeah, that's a great question. And I'm going to just go back to the timeline. So, I think that makes it a lot easier to see. So, 2021 is the end date for an investor to invest in an opportunity fund and receive the 10% reduction in the taxes on their original capital gains, but an investor has up until the end of 2026 to realize capital gains and put those into a project in an Opportunity Zone and receive that third incentive which is the ability to accrue that appreciation of their project tax-free. So, while the first two incentives will be diminished, that third one is much more long-term.

Moderator One more question from Mary May Rose. Can you add OZ investment if the project has already received LIHTC?

Melissa That is a great question. We can do maybe a little bit of research. If you want to send an email to that HUD address and get back to you. My initial thought is that that would be challenging if the project is already underway, but there may be ways of figuring that out.

Erich It's definitely more challenging but there are projects that have been under construction that have had swaps in equity with Opportunity Zones funds coming in - swapping out existing equity. And then that other Equity was freed up to be able to provide more benefits to the community. So, there are methods but that's a tax attorney question and can be very complex. Yes.

Melissa Yeah usually provided disclaimer that I'm not a tax attorney when starting his presentation.

Merrie Okay, this is Merrie and we're a little past time, but we would like to thank everyone for calling in and we hope that this was instructive, and that we've provided information that you may find useful. Please take advantage of the email address that we provided. We will be monitoring the questions and responding to them. Thank you so much for your time. Thank you to the presenters and have a good evening.

Moderator Thank you. Again, the PowerPoint is available for download in the tab in the control panel.