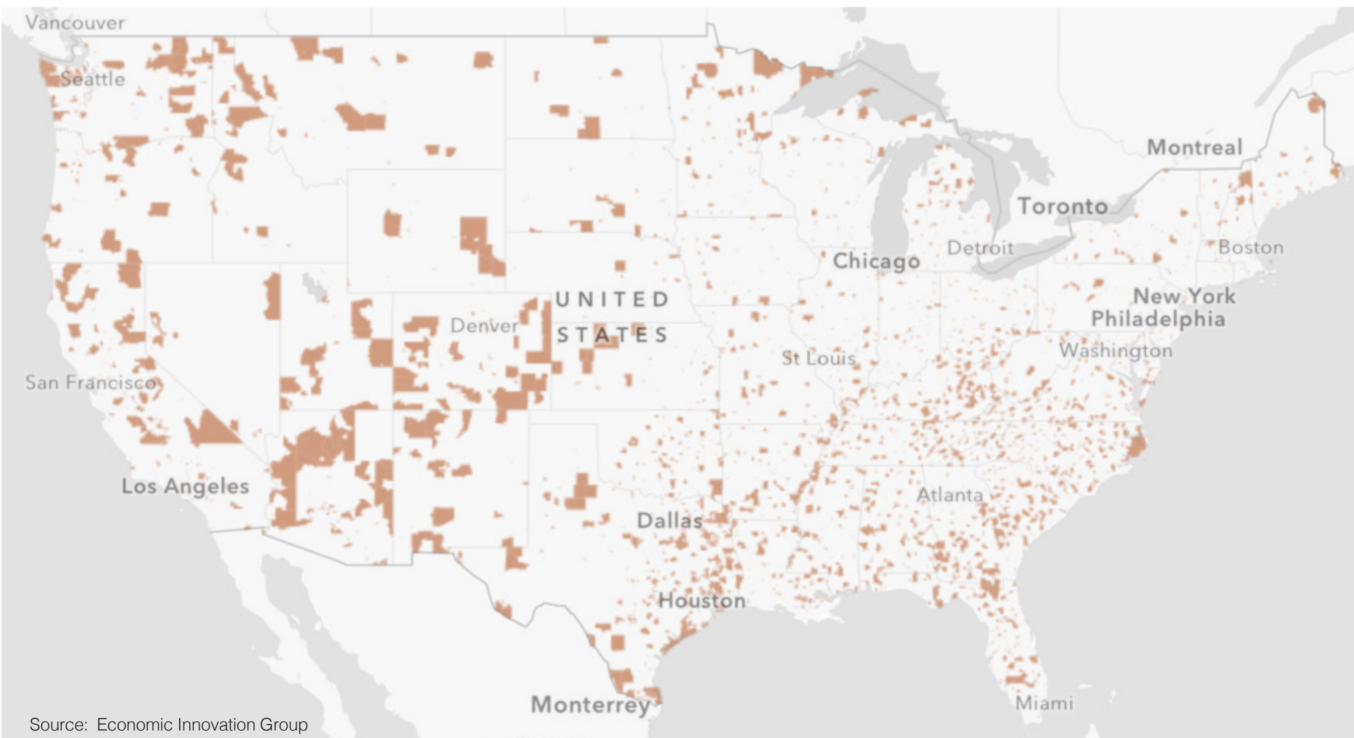
The Greatest Tax Shelter in United States History

Multiplying Your Returns with Opportunity Zone Funds

By Joel G. Block, CPA, CSP

Hedge Fund Manager, Syndicator, and Venture Capitalist



Source: Economic Innovation Group

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Housekeeping

Author's Introduction

I have been in the Real Estate Syndication and Real Estate Hedge Fund businesses since 1986, and got my start in these businesses at PriceWaterhouse when I was assigned to convert the books and records of over 500 real estate partnerships into tax returns. Though I did not like the tax work, I was fascinated by the deal side. That was all I needed to know to leave PW for a career in the Syndication and Hedge Fund businesses – with several years in Venture Capital in between. The deal business can take us in many different directions – depending on where the deals are, but the fundamentals remain the same: match great deals with capital so you can return to the investors their money back plus more. And as the economy evolves, the formula stays the same, but the deals are going to be in Opportunity Zones. You can wait and see what happens, or you can take my word for it, but I promise you, I have been around the block a few times, and Opportunity Zones is a big one.

Acknowledgements

This material could not have been put together without the quick and versatile skills of our research and production teams, starting with the quintessential Sarah Sypniewski. And of course that work was reviewed (and fanatically edited) by my long time securities attorney, Russell Frandsen, with whom I have set up close to 100 syndications and funds. Some were my deals, but many have been for clients of our firm, Bullseye Capital. The design work has been done our long-time designer Dina Kuhar, and it's been converted for web and mobile consumption by our very talented webmaster Brooke Bradford. The marketing of the package is the responsibly of none other than Phil Gerbyshak. I thank each of you as this project could not have come together without each of your very valuable contributions.

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About the Author

Money business insider, Joel G. Block is a real world, 30+ year veteran of the venture capital, private equity, and Hedge Fund world who addresses audiences from Silicon Valley venture firms to Wall Street bankers on matters of capital formation and most recently, on Opportunity Zones. He is a professional investor who has been a principal in over 30 syndicated real estate or entrepreneurial transactions in addition to advising on dozens more.

Joel is CEO of the Bullseye Capital Fund, a real estate hedge fund that acquires distressed real estate assets nationwide, though he spent many years in the venture capital business. Joel has conceptualized, capitalized, operated and sold several companies, one of which he sold to a Fortune 500 company. He founded of the National Association of Syndicators and has taught thousands of real estate brokers, CPAs, attorneys, and Investors about raising capital and best practices for structuring group investments. Joel is a nationally recognized expert in Private Placements, Reg D Offerings, Operating Agreements, deal structure, tax issues and capital raising approaches with both accredited and non-accredited Investors. He is regularly called on by attorneys and courts of law as an expert in matters of financing, deal structures, and real estate.

A professional speaker, Joel is a persuasive and engaging communicator. He naturally demystifies complex issues and forensics for laymen. As a leader, Joel is humble, likable, friendly, easy to relate to, and was the foreman of a successful jury. His work has appeared in the Los Angeles Times, Wall Street Journal, Forbes Small Business, Entrepreneur Magazine, Investor's Business Daily, and the Los Angeles Business Journal. Joel is a professional member of the National Speakers Association, where he holds the prestigious Certified Speaking Professional designation plus he is a member of the elite NSA Million Dollar Speakers Group. And though he doesn't admit often, Joel is also a CPA.

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The Tax Break of a Lifetime

Overview

It a pretty wild statement to open with, but this really is the Greatest Tax Shelter in United States History – and the tax break of a lifetime for many investors. And as you will see, besides what the investors get, communities will receive benefits they cannot imagine. So as long as we can all focus on what we each receive – and not so much on what all the other people receive, this program has the potential to be spectacular. This brand new tax-financed community improvement program can be a win-win-win-win for all the parties involved. In the section called "Where is the Tax Shelter of Our Dreams?" I will explain the tax abatement that will be used to fund the new phenomenon known as Opportunity Zones. This booklet also describes how to invest in these areas using specially created Opportunity Zone Funds.

The idea of Opportunity Zones originated with tech billionaire Sean Parker. In 2013, he formed the Economic Innovation Group (EIG)—a Washington think tank--to help him get it into the tax code. It worked.

The Tax Cuts and Jobs Act of 2017 added a new section of the Tax Code (26 U.S. Code §1400Z) that created a program out of this idea. It is new community development program that offers tax incentives for investments in targeted areas in the United States called Opportunity Zones. The goal of this new program is to encourage long-term investments in low-income urban and rural communities nationwide through vehicles called Opportunity Zone Funds.

This is a huge development in the real estate investing industry. A program like this hasn't been seen in probably 50 years, and the benefits offered will build up the 1031 exchange, both in tax deferral treatment and program flexibility. And even more significant, experts estimate that over $6 trillion in deferred profits exist in 1031 transactions – all eligible for investment into opportunity zones.

The incentives for investors are powerful: once they invest in an Opportunity Zone Fund, investors are permitted to defer and reduce their existing capital gains tax liability from previous 1031 exchanges, plus they have the chance to totally eliminate future capital gains tax on returns earned from the Opportunity Zone Fund.

More specifically, EIG estimates there is approximately $3.8 trillion worth of unrealized capital gains sitting in U.S. households and another $2.3 trillion when you consider U.S. corporations. They hope the new tax incentives create the "largest federal community development initiative in memory".

What is an Opportunity Zone?

An Opportunity Zone is a low-income geographic area in the U.S. that has been identified by a state governor and verified by the U.S. Treasury Department as a qualifying census tract.

State Governors had until March 22, 2018 to choose up to 25% of their state's eligible low-income census tracts to become Opportunity Zones. The designation stays in place for ten years and cannot be modified after initial designation. There are now approximately 8,700 Opportunity Zones throughout the U.S.

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What is an Opportunity Zone Fund?

An Opportunity Zone Fund is an investment vehicle that invests at least 90% of its capital in tangible property used in a trade or business located in Qualified Opportunity Zones (Opportunity Zone Property).

What are the benefits of Opportunity Zone Fund investing?

The three major tax advantages to investing in Opportunity Zone Funds include:

- Deferral of Capital Gains: Investors receive a deferral of inclusion in taxable income for capital gains reinvested into an Opportunity Zone Fund until December 31, 2026, or when the Opportunity Zone Property is sold, whichever occurs first.
- Reduction of Capital Gains Tax through Step-Up in Basis: The program utilizes a step-up in basis for capital gains rolled into an Opportunity Zone Fund, which ultimately can reduce the tax on an investor's capital gains if they hold it long enough. The basis of the original investment increases by 10% if the taxpayer holds the investment for at least 5 years, and by an additional 5% if held for at least 7 total years, thereby allowing an investor to potentially exclude up to 15% of the original gain from taxation.
- Permanent Exclusion of Tax on Capital Gains: If taxpayers hold the investment for at least 10 years, the capital gains from the sale or exchange of Opportunity Zone Property in an Opportunity Zone Fund will be completely excluded from income.
- Two types of investments can qualify as Opportunity Zone Fund investments:
  - Ownership in businesses that conduct most or all of their operations within a qualified Opportunity Zone and invest in Opportunity Zone Property. The businesses corporations, limited liability companies and partnerships.
  - Ownership of Property such as factory equipment or real estate deployed within a qualified Opportunity Zone.

Participating in Opportunity Zone Funds offers several tax advantages, both in the short-term and long-term, with the long-term benefits being far more attractive. The longer investors hold their investments, the more potential capital gains they're able to exclude from capital gains tax.

Outside of restrictions on funding "sin" businesses, benefits can be applied to a broad array of investments, including commercial real estate, housing, infrastructure, and even existing and start-up businesses.

The program incentivizes investors to invest in targeted distressed areas. Funding comes from the estimated $2.2 trillion in unrealized capital gains in stocks and mutual funds held by individuals and corporations. Funds will be able to defer and reduce federal tax liability on the sale of these assets if they channel that into an Opportunity Zone Fund and invest in an Opportunity Zone.

According to the Joint Committee on Taxation, the measure is expected to cost the government $7.7 billion between 2018 and 2022, and $1.6 billion over 10 years as deferred taxes are paid.

Some consider this program a continuation of the general federal approach to community development over the last few decades, beginning with the establishment of Community Development Block Grants during President Nixon's administration in the '70s.

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Opportunity Zones allows state leaders to weigh in and help mold the program, with investors deciding which projects and businesses will be the most viable.

Where is the Tax Shelter of Our Dreams?

Earlier in the document, we discussed deferral of capital gains and the step up in basis. This is fancy tax language that gets CPAs pretty excited because it means a lot of taxes can go away – especially for real estate investors who use the special treatment afforded to them by Internal Revenue Code Section 1031. The reason so much money is likely to pour into to Opportunity Zones is because of the favorable treatment it provides to pre-existing 1031 exchanges. That means that people who have been accumulating tax deferred income will be able to release profits without taxation.

Under the 1031 rules, the strategy works like this: a person buys a piece of real estate, say for $100,000. If that person sells it in the future for $500,000, they would ordinarily pay taxes on $400,000 profit. But under the 1031 exchange rules (which are much more complex than this explanation so don't attempt this without the supervision of your CPA, attorney, and or exchange accommodator) if you reinvest the $400,000 into another piece of real estate (referred to as a "like-kind" asset) the tax will be deferred until you cash out.

The logic is that you are not really in any different position after the reinvestment than you were during the previous investment, and since there wasn't any cash dropping into your account, you don't have the "wherewithal" to pay. For these two reasons, investors are allowed to defer taxes until they "cash out".

The issue with a 1031 exchange is that once you get into the cycle, it's very hard to get out of it without paying potentially huge amounts of tax on lots of built up profits. Of course, you could always wait for the ultimate tax shelter to release your 1031 profits – and that is to die, which provides your heirs with a step up in basis, eliminating the capital gains and income tax, subjecting the heir instead to the estate tax, which has a very generous exemption on the first $11.2 million of assets for a married couple, both of whom are deceased. Our firm has developed the "Shares for Heirs™" program to address some of these tax deferral issues, but Opportunity Zone Funds are able to do it in a new and somewhat better way.

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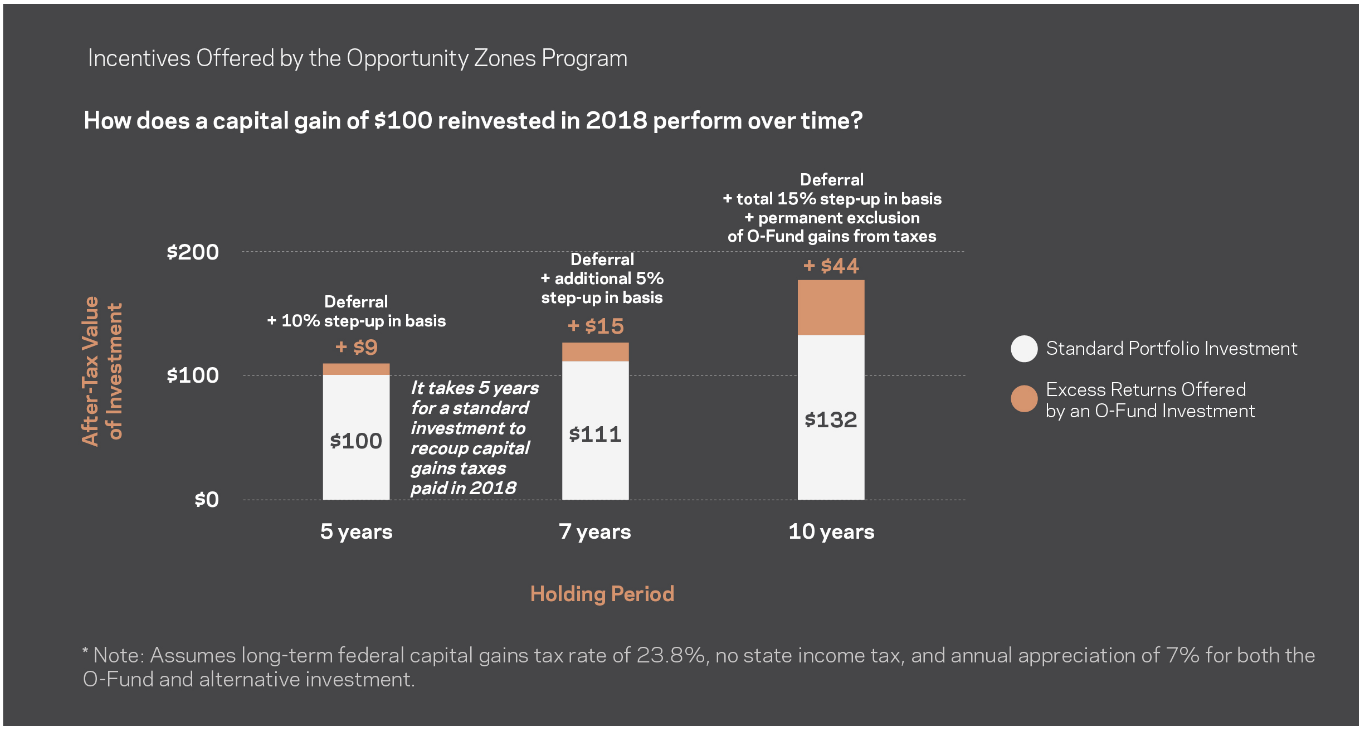
How Much Does the Tax Break Impact the Returns?

A good investment, super-charged by the tax abatement can produce astonishing returns as demonstrated by the graph below. Step up in basis on potential 1031 gains are in addition to this.



Source: Economic Innovation Group

Why is Real Estate Ideal for Opportunity Zone Fund Investing?

As real estate is inherently a long-term asset, it's a natural fit for Opportunity Zone Funds.

Acquiring properties at a low-cost basis in an emerging urban neighborhood is standard operating procedure for investors. As the demand in areas around these neighborhoods increases and residents are displaced or new residents are priced out, they move into these emerging neighborhoods, which--in turn--pushes demand, growth, and pricing up. On top of that, in major metro areas, land is scarce as it is, which makes it even more of a premium, which reflects in the appreciation of home and building values.

Top Ten Opportunity Zones

The Top Ten were compiled and cited on several web sites, including here:
https://opzones.ca.gov/2018/08/23/california-oz-sites-ranked-in-top-10-nationally/

57% of all neighborhoods in America were considered for entry into the program, and there are currently more than 8,700

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census tracts with the Opportunity Zone designation, according to the Brookings Institution. However, there are ten that stand out as areas with the most potential to improve lives for residents and investors right away. Most of them are in the west, with a majority in California:

OAKLAND: West Oakland, Uptown, Jingletown, and Coliseum Industrial - Oakland and the East Bay are currently seeing surges in growth and neighborhood improvements. Additionally, job growth has outpaced housing development, and due to continually skyrocketing housing costs in San Francisco proper, housing in Oakland is in demand, which is now pushing prices up there as well.

LOS ANGELES: Downtown and South Los Angeles - Over the last five years, DTLA home prices have stayed right in line with the rest of Los Angeles at an almost 32% increase. The area is undergoing a renaissance and residents and businesses continue to move in at warp speed. In South LA, housing is more affordable than in many other parts of the city. Plus, the area is extremely accessible via freeways, so this area is one of the biggest zones of opportunity in the metro area. In general, LA offers a lot of Opportunity Zones that lie along the freeways (particularly the 10) and are becoming more in demand due to the expanding Metro train system.

SAN JOSE: Market Almaden, Washington Guadalupe, East Northside, Jackson Taylor, and Mayfair - Downtown San Jose is home to the Civic Center, San Jose State University, Adobe, the regional multi-modal transit center, and will soon be home to a new Google campus, which is expected to add one million square feet of office space. This is the perfect set up for high demand for housing that allows employees to live near their workplaces.

SAN DIEGO: Golden Hill, South Park, and Barrio Logan - these high demand areas have typically presented challenges to developers that have made it difficult to build profitable units here. However, the Opportunity Zone program's structure is designed to overcome them. With the proximity to the coast and city centers, it's a recipe for success.

SEATTLE: Beacon Hill and the International District - In general, Seattle also faces underdevelopment when compared to the surge in population and desperately needs denser housing solutions. There is a high demand for affordable housing. Specifically, the International District is home to many large scale commercial developments that employ people in need of housing that is walkable, while Beacon Hill's increasing home prices offers potential for adding or renovating housing for existing and incoming residents.

PORTLAND: Pearl District and Central Eastside - In general, Portland is experiencing a major boon due to the fact that it's more affordable than San Francisco and Seattle (especially for tech). Business is particularly booming in the Pearl District, especially along the Willamette River. Commercial buildings continue to go up, and all of the employees and customers need quality housing in the area. The Central Eastside neighborhood is also rapidly expanding due to its unique combination of CED incentives, historic industrial buildings, affordability, and central location. It's already attracted thousands of businesses to the area.

PHOENIX: Downtown, Tempe, Chandler and Mesa - Phoenix is one of the fastest growing city centers in the country. Both Arizona State University and the University of Arizona have campuses Downtown with growing student populations. Additionally, a light rail is planned for the major thoroughfare that will bring even more accessibility. The areas of Mesa, Chandler, and Tempe are also of major interest due to the fact that they are home to big offices of Apple and State Farm, among others.

NASHVILLE: East Bank, Five Points, 12 South, and Edgehill - Nashville's business growth is exploding, which means the need for housing is, too. For example, the Nashville Yards development is expected to add 4 million square feet of mixed-use

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real estate across 10 buildings. On top of this, Nashville is still a key distribution hub for Amazon, Under Armour, and Macy's. There is a serious potential for a housing shortage unless new development and redevelopment kick up a few notches.

ATLANTA: Bankhead, Grove Park, and English Avenue - Atlanta was the third-fastest growing city in the country in 2017, and shows no signs of stopping. The first phase of the new 285-acre Bellwood Quarry Park right off the Bankhead MARTA station is expected to open to the public in 2019. Zoning allows for up to 850 new residential units, a 300-room hotel and nearly 600,000 of office and retail space. Also, West Midtown is undergoing expansion and transformation as a 9-acre former industrial site becomes a living and shopping center to meet the needs of Georgia Institute of Technology and others.

NEW YORK CITY: Brooklyn - Brooklyn will see more than 1 million square feet of commercial real estate added within the next 3 years, which means they need more housing as soon as possible. Crown Heights, Bedford Stuyvesant, Lefferts Gardens, Sunset Park, and South Slope are already dealing with affordable housing due to development, re-development, and gentrification, but there are still affordable opportunities here. According to MNS, the average two-bedroom monthly rent in Crown Heights has increased 12% over the past 3 years, but the current average rent for a two-bedroom is approximately $2,500, which is affordable by New York standards.

How does an Opportunity Zone Fund Compare to a 1031 Exchange?

The 1031 Exchange has been one of the most tax efficient investment vehicles for real estate investors for a long time; however, Opportunity Zone Funds are presenting themselves as a strong alternative. Opportunity Zone Funds not only offer investors the ability to defer and reduce their initial capital gains tax bill, they also offer a way to eliminate any capital gains taxes earned from their Opportunity Zone Fund investments under certain conditions. So which is a better vehicle?

1031 Exchanges (like-kind exchanges) allow investors to defer paying capital gains tax on the sale of a property if they re-invest the proceeds into a new "like-kind" property. This allows an investor to preserve the gross equity earned from a real estate investment by re-investing in real estate, increasing buying power.

Opportunity Zone Funds must invest at least 90% of their capital into Opportunity Zones Property, which gives investors the potential to defer paying capital gains tax on an appreciated asset sale until 2027. Investors can also potentially reduce their original capital gains tax liability by up to 15%, and possibly avoid paying any tax on gains from their Opportunity Zone Fund investment.

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1031 v. Opportunity Zone Funds at a Glance

	1031 LIKE-KIND EXCHANGE	OPPORTUNITY ZONE FUND INVESTMENT
Rollover	The amount of capital gain and principal from the sale of real property must be reinvested in real property within 180 days of sale. The transaction typically is conducted through a qualified intermediary.	Upon the sale of real property, only the amount of capital gains must be reinvested within 180 days of sale in Opportunity Zone Property. Reinvesting only a portion of the gain is permitted. No intermediary is required. The gain may be reinvested in any Opportunity Zone Property, not just real property. If a limited liability company or a partnership does not itself reinvest in Opportunity Zone Property, but simply reports the capital gains to the partners or members on the Form K-1 sent to partners or members, the individual partners or members have 180 days after the end of the taxable year to individually reinvest in Opportunity Zone Property.
Investment Structure	Designed for single asset swaps. Multiple properties can be supported through certain structures, but high costs, fees, and general inflexibility come with that.	Can support a pooled fund that invests in multiple assets.
Capital Gains Tax Deferral	Capital gains tax payments for the initial investment may be deferred indefinitely.	Capital gains tax payments of the initial investment may be deferred until April 2027, but if the property is held for ten years, capital gains may be completely eliminated. See below.
Capital Gains Tax Reduction	No capital gains reduction available except through a step up in basis upon death.	Capital gains tax on initial investment is reduced by 10% after 5 years and by another 5% after 7 years through a step up in basis. In total, a 15% reduction is possible (as long as it's invested by December 31, 2019).
Capital Gains Tax on Final Sale	Capital gains tax is owed on final sale of the asset.	If investment is held for at least 10 years, **no capital gains tax** is owed on any appreciation of the initial Opportunity Zone Fund investment upon sale of such investment.

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Section 1031 Rollover

A 1031 Exchange is not taxed because it is technically a "swap" of one property for another, rather than an actual sale. Investors must reinvest both the principal and capital gain proceeds from the sale of an appreciated asset within 180 days of sale.

That said, finding an investor with whom to swap properties is often impractical. Because of that, the IRS also allows for a non-simultaneous or "Starker" exchanges, which is the most common method. Under this like-kind exchange, an investor sells a property, and then purchases another property of "like kind" within 180 days of sale (or by the day that their next tax bill is due) through a qualified intermediary.

On the other hand, Opportunity Zone Funds require investors to reinvest only their capital gain within 180 days in order to qualify for tax benefits (but they may invest more). There are no requirements that the principal of the initial investment must be reinvested. The investment may be in any tangible personal property or real property that qualifies as Opportunity Zone Property within an Opportunity Zone.

Also, investors can invest in Opportunity Zone Funds directly, and don't need to use an intermediary. In order to qualify for the tax advantages of Opportunity Zone Funds, investors only have to indicate on their income tax return that they rolled their capital gain into an Opportunity Zone Fund. The buying and selling process with Opportunity Zone Funds is much more efficient and cost-effective than the 1031 exchange.

Qualified Assets

Under section 1031, the proceeds from the sale of property must be reinvested in "like-kind" assets. A 1031 Exchange for the sale of one kind of property does not apply to the reinvestment in any other kind of appreciated property.

On the other hand, an Opportunity Zone Fund offers a way to defer and reduce capital gains tax liability for both real estate and tangible non-real estate investments.

Additionally, Opportunity Zone Funds themselves can invest in multiple types of assets such as company stock, business partnership interests, and in capital resources like factory equipment that meet the requirements of Qualified Property. Overall, in terms of asset options, Opportunity Zone Funds offer investors a greater number of choices and diversification potential than 1031 Exchanges.

An investor should note, however, that the assets in which Opportunity Zone Funds may invest to qualify for the tax benefits must be physically located in Opportunity Zone communities. Under section 1031, like-kind exchanges apply to tangible property in any location.

Additionally, Opportunity Zone Funds may only invest in real estate assets if the original use of the property commences with the Opportunity Zone Fund, or the asset is substantially improved, meaning new construction or redevelopment projects. This strategy is excellent for long-term maximized appreciation potential, *but it also means the Fund manager has to have significant experience and operational expertise.*

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Investment Structure

Although 1031 Exchanges are generally designed for the selling of a single asset in exchange for another single asset, there are ways around the single asset structure. Navigating the process is very complex and usually comes with relatively high transaction costs.

Comparatively, Opportunity Zone Funds can be structured as pooled funds from multiple investors, leading to a diversified portfolio of real estate (and possibly other) assets, which reduces the risk. Additionally, investors don't have to acquire or manage assets because the fund manager does it.

While 1031 Exchanges offer advantages for experienced real estate operators who prefer hands-on management over a long period of time, Opportunity Zone Funds are ideal for passive investors.

Capital Gains Tax Deferral

Capital gains tax payments can be deferred indefinitely with 1031 Exchanges, which is something Opportunity Zone Funds don't offer. Theoretically, an investor could conduct a series of rollovers, swapping one property for another, and so on while deferring any capital gains tax liability until the asset is disposed of, either through a traditional sale or through inheritance and estate planning.

But investors who conduct a series of 1031 Exchanges can face other issues, such as depreciation recapture. When an asset is disposed of, any depreciation deductions claimed for that asset in previous tax filings may potentially be taxed as ordinary income. On top of this, investors may have trouble finding a suitable replacement asset that will help them avoid additional taxes. To the extent that an investor receives cash or other property that is not of like-kind (otherwise known as "boot"), the investor will realize a taxable gain. Boot can also arise from the differential amount in the equity or debt of the asset being disposed of and the one being acquired.

Capital Gains Tax Reduction

An Opportunity Zone Fund offers access to a "step up" in investors' tax basis, allowing them to defer paying capital gains taxes on their initial gain and reduce their tax bill.

If the Opportunity Zone Fund investment is held for at least 5 years, investors can step up their initial cost basis (and thus reduce their capital gains tax liability) by 10%. If held for at least 7 years, investors can step up their basis (and thus reduce the capital gains tax liability) by 15% in total.

A 1031 Exchange, on the other hand, can help a real estate investor defer capital gains, it can't help an investor reduce capital gains owed. A tax basis step up is only possible upon the death of an individual owner when the property goes to an heir.

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Tax Upon Sale

Under the 1031 Exchange, individual investors will eventually be taxed on their capital gains in full upon their final disposition – assuming that the disposition happens while the investors are living. This means that if the last asset acquired in a series of 1031 Exchange rollovers appreciates significantly, when that asset is divested, the investors could incur a sizable tax bill.

In contrast, Opportunity Zone Fund investors can expect permanent exclusion for any gains realized on their initial qualifying investment in the Opportunity Zone Fund if they hold the investment for at least 10 years. In other words, even if the Qualifying Property experiences a sizable increase in value, when investors sell their Opportunity Zone Fund investment, they would owe zero federal taxes on that capital gain.

And, at this time there is no limit on how long an Opportunity Zone Fund investment may be held, which means that investors may be able to build decades of appreciation from any capital gains and owe nothing in capital gains tax on the earnings of the investment when they eventually sell it 10 or more years later.

1031 EXCHANGES ARE MOST SUITABLE FOR:	OPPORTUNITY ZONE FUNDS ARE MOST SUITABLE FOR:
Active real estate investors with the resources and expertise needed for ongoing management and who want to invest in areas other than Opportunity Zones.	*Passive investors* looking for diversified portfolios through professionally managed pooled funds.
Investors with a gain stemming from a real estate sale.	Investors with a gain stemming from any appreciated asset sale, such as stocks, bonds or real estate. Although still subject to guidance from the Treasury Department, you may even be able to roll over the gain from a final disposition of a 1031 Exchange asset into an Opportunity Zone Fund.
Investors who do not need access to their invested principal.	Investors who need access to their invested principal.
Older investors who intend to bequeath any assets acquired through a 1031 Exchange in order to take advantage of the tax basis step up for inheritances.	Investors with a medium time horizon, or who do not intend to bequeath their investment to a beneficiary or estate in the imminent future.

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Active real estate investors with the resources and expertise needed for ongoing management and who want to invest in areas other than Opportunity Zones. Passive investors looking for diversified portfolios through professionally managed pooled funds.

Investors with a gain stemming from a real estate sale.Investors with a gain stemming from any appreciated asset sale, such as stocks, bonds or real estate. Although still subject to guidance from the Treasury Department, you may even be able to roll over the gain from a final disposition of a 1031 Exchange asset into an Opportunity Zone Fund.

Investors who do not need access to their invested principal. Investors who need access to their invested principal.

Older investors who intend to bequeath any assets acquired through a 1031 Exchange in order to take advantage of the tax basis step up for inheritances. Investors with a medium time horizon, or who do not intend to bequeath their investment to a beneficiary or estate in the imminent future.

A Few Issues to Watch Out For

Diversification

As we know, investing directly in a single asset or a handful of assets can offer high return potential, but that strategy is fraught with high risk, which is why we believe diversification across asset types and geographic location is vital.

Many real estate managers aren't able to build a truly diversified portfolio of Opportunity Zone real estate investments, but qualified sponsors of Opportunity Zone Funds may to invest in a variety of asset types, including residential, mixed-use, and office properties. This is important because if, for example, demand for single-family homes diminishes, the other property types in the Fund's portfolio will keep the fund functioning well. A diversified portfolio enables investors to leverage the advantages of each property type simultaneously, and it means it will probably have less risk than one that is focused solely on one property type.

In addition to risk mitigation, each property type that an Opportunity Zone Fund intends to invest in may offer unique advantages. For example, multifamily properties tend to be countercyclical; typically outperforming during times of economic downturn. Mixed-use properties offer multiple sources of cash flow from their retail and residential tenants. And office developments may provide an opportunity for growth in various business sectors, such as tech.

One primary advantage of an Opportunity Zone Fund is that it can potentially offer exposure to various markets across the country. Compared to smaller operations that are limited to one geographic area, a national Opportunity Zone Fund may acquire multiple assets in emerging areas throughout the country with high-growth potential. This strategy may mitigate risk through diversification, while leveraging the tax incentives of the Opportunity Zone program.

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Deal Quality

An Opportunity Zone Fund may pool investments from thousands of investors, which can sponsor multiple projects at once, whether residential or office renovations, or ground-up development projects. Pooling funds may allow investors access to larger and better investments than they would otherwise be able to access on their own.

Operational Expertise

For real estate, Opportunity Zone Funds may only invest in the construction of new buildings and the revamping of previously unused ones, or the fund must invest more than it paid to acquire the building in property improvements (e.g., renovations) within 30 months of the purchase date. In other words, investors must develop a property from the ground up, convert it into a new building with a new purpose, or substantially rehabilitate it (e.g., perform a gut renovation) within 30 months of buying the property. Each of these options requires access to capital and construction expertise.

Sounds Like a Slam Dunk. What Else Could Go Wrong?

The biggest concern that all of us underestimate and need to look at carefully, is the community's willingness to accept the capital that fund operators bring into the marketplace. Although it's counter-intuitive, not all communities want the money that investors bring to them. There are many examples of large organizations bringing money into communities of color where the citizens push back, not wanting the project being proposed for many potential reasons. Unfortunately, with the racial discourse in our country, there is distrust on all sides that can result in unexpected outcomes. For these reasons, before you put your hard earned money into an Opportunity Zone Fund, *make sure that the fund manager has good relations with the communities where the funds will be invested* or the opportunities could be harder to find and the money harder to place than anticipated – jeopardizing the tax incentives of the program.

Selected IRS FAQs

This material has been reprinted from the IRS website at:
https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions

Q. I AM INTERESTED IN KNOWING WHERE THE OPPORTUNITY ZONES ARE LOCATED. IS THERE A LIST OF OPPORTUNITY ZONES AVAILABLE?

A. Yes. The list of designated Qualified Opportunity Zones can be found at Opportunity Zones Resources (https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx) and in the Federal Register at IRB Notice 2018-48 (https://www.irs.gov/pub/irs-drop/n-18-48.pdf). Further a visual map of the census tracts designated as Qualified Opportunity Zones may also be found at Opportunity Zones Resources [link].

Q. I AM INTERESTED IN FORMING A QUALIFIED OPPORTUNITY ZONE FUND. IS THERE A LIST OF OPPORTUNITY ZONES AVAILABLE IN WHICH THE FUND CAN INVEST?

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A. Yes. The list of designated Qualified Opportunity Zones in which a Fund may invest to meet its investment requirements can be found at IRB Notice 2018-48 (https://www.irs.gov/pub/irs-drop/n-18-48.pdf).

Q. WHAT DO THE NUMBERS MEAN ON THE QUALIFIED OPPORTUNITY ZONES LIST, NOTICE 2018-48?

A. The numbers are the population census tracts designated as Qualified Opportunity Zones.

Q. HOW CAN I FIND THE CENSUS TRACT NUMBER FOR A SPECIFIC ADDRESS?

A. You can find 11-digit census tract numbers, also known as GEOIDs, using the U.S. Census Bureau's Geocoder. After entering the street address, select ACS2015_Current in the Vintage drop-down menu and click Find. In the Census Tracts section, you'll find the number after GEOID.

Q. HOW DOES A CORPORATION OR PARTNERSHIP BECOME CERTIFIED AS A QUALIFIED OPPORTUNITY ZONE FUND?

A. To become a Qualified Opportunity Zone Fund, an eligible corporation or partnership self-certifies by filing Form 8996, Qualified Opportunity Zone Fund, with its federal income tax return. The return with Form 8996 must be filed timely, taking extensions into account. Early-release drafts of the form and instructions (https://www.irs.gov/pub/irs-dft/f8996--dft.pdf) are posted, and the Treasury has scheduled a public hearing for January 10, 2019 and will accept comments on the Proposed Regulations until then. The Treasury is expected to subsequently issue final regulations. Note, the Proposed Regulations indicate that this guidance may be applied to transactions that occur before the final regulations are issued..

Q. CAN A LIMITED LIABILITY COMPANY (LLC) BE AN OPPORTUNITY ZONE FUND?

A. Yes. A LLC that chooses to be treated either as a partnership or corporation for federal tax purposes can organize as a Qualified Opportunity Zone Fund.

Q. HOW DO I ELECT TO DEFER MY GAIN ON THE 2018 SALE OF STOCK?

A. You may make an election to defer the gain, in whole or in part, when filing your 2018 Federal Income Tax return. That is, you may make the election on the return on which the tax on that gain would be due if you do not defer it.

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Bullseye Capital

Ready to Move Forward and Invest?

There are thousands of Opportunity Zones waiting for investors to help them develop their potential--even in your own backyard. To get started, find the Zone and corresponding Opportunity Zone Fund that interests you and be ready on December 31, 2018 to sell an asset and then roll it immediately into your chosen Fund. Then, make sure you declare on your tax filing that you have a capital gain rollover into an Opportunity Zone Fund. Then hold onto it for at least ten years.

Experienced real estate managers everywhere are considering harvesting gains from asset sales by creating their own qualified Opportunity Zone Funds, but not all of them have the knowledge, resources and ability to execute their strategy quickly. Working with a qualified company is important to take advantage of this opportunity properly.

Though we are not promoting a specific fund, and we are not sponsoring one at this time (though this could change at any time), we know many professionals who are organizing such funds. If you would like a referral, please be in touch with us.

To speak with me personally, you may set an appointment on my calendar as follows:

For Prospective Investors, please access my calendar here:

http://bit.ly/OZF-Investor

For Deal Promoters and Sponsors, please access my calendar here:

http://bit.ly/OZF-Sponsor

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