

CALIFORNIA OPPORTUNITY ZONE OUTLOOK

The Shifting Sands of Economic Development: Welcome to the “O”-Zone

League of California Cities
City Managers Conference



*California is still the
land of opportunity*

February 14, 2019



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DISCLAIMER

None of the information contained or provided herein constitute a recommendation nor is to be construed as tax or legal advice. Please consult a qualified tax accountant or legal advisor regarding any potential investment in Opportunity Funds.

PRESENTATION OUTLINE



- **Brief Overview Of OZ Program**
- State of Opportunity Zones in California
- Aspects of Opportunity Zone Implementation

“We also want to pair EIFDs with the Opportunity Zones. This is the Big Idea.”

— Gov. Newsom

January 10th, 2019

2019-2020 State Budget Release

“The Governor’s Office of Business and Economic Development will help foster relationships between local EIFDs and investors to facilitate investments for disadvantaged communities or other targeted areas. **The state will explore layering additional programs on Opportunity Zones and EIFDs to increase the production of affordable and moderate-income housing.**”

- Budget Summary, Governor Newsom’s 2019-2020 Proposed Budget, Page 94

CITIES CAN CAPITALIZE ON OZ INVESTMENT

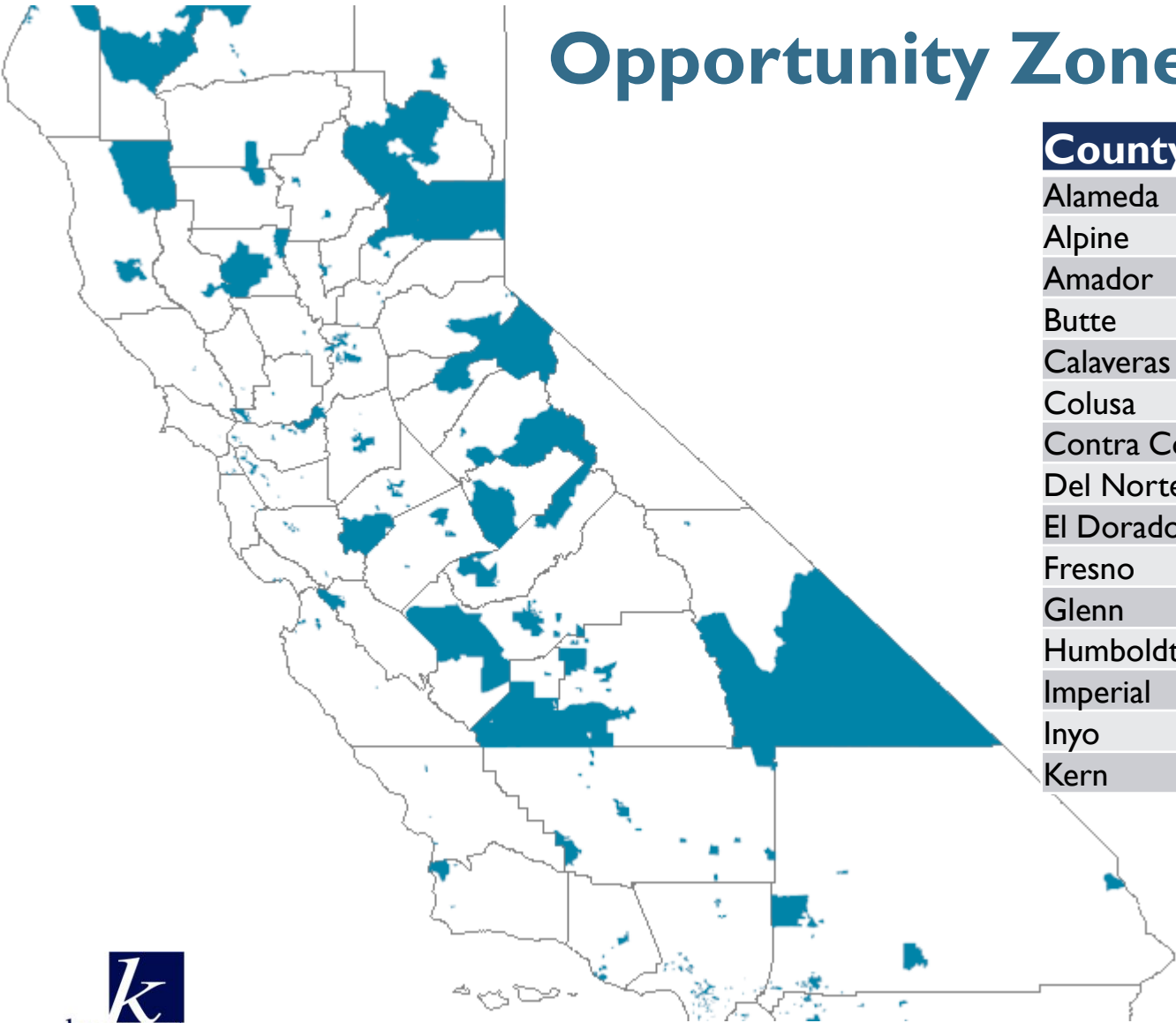
Opportunity Zone Funds are Forming Across the Country

- ~70 funds pursuing investment opportunities in California
- Diverse preferences for investment types:
 - Urban/suburban
 - Real estate and business operations
 - Community-based investing

State is Prioritizing OZ Program in Econ. Development Toolkit

- Preferences for **housing** and **green technology** developments
- Wants to couple OZs with EIFDs to improve investment opportunity and catalyze development

Opportunity Zones in 57 California Counties

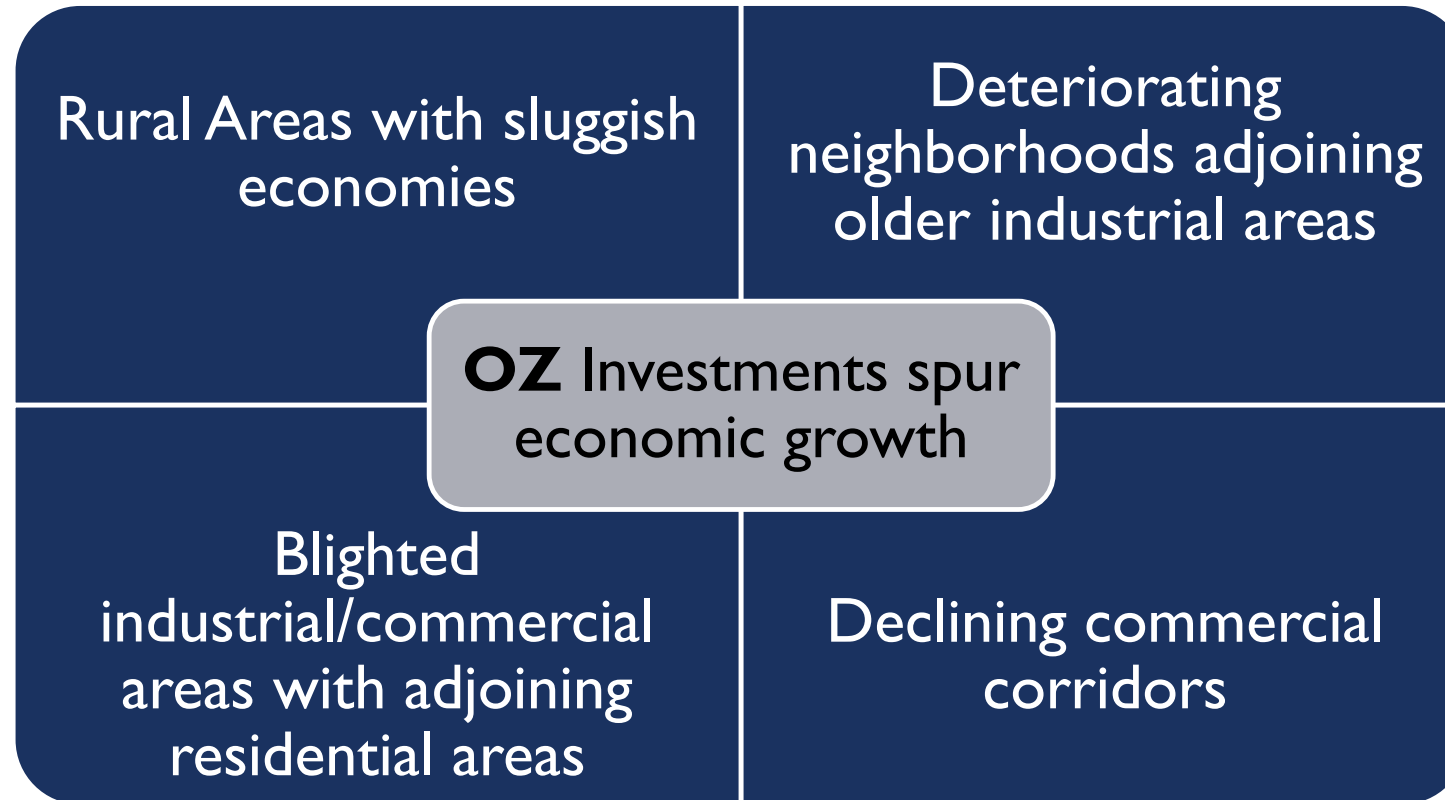


County	OZ	County	OZ	County	OZ	County	OZ
Alameda	47	Kings	5	Plumas	2	Siskiyou	3
Alpine	1	Lake	3	Riverside	49	Solano	9
Amador	1	Lassen	2	Sacramento	43	Sonoma	3
Butte	9	Los Angeles	274	San Benito	2	Stanislaus	17
Calaveras	1	Madera	5	San Bernardino	57	Sutter	4
Colusa	2	Marin	1	San Diego	47	Tehama	1
Contra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



WIDE VARIETY OF POTENTIAL INVESTMENTS

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



OPPORTUNITY ZONES – BACKGROUND

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

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

Tract screening criteria:
poverty level
Sufficient business activity
Geographic diversity

879 O-Zones
approved in California

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

OPPORTUNITY ZONES – OVERVIEW

Basic Tax Advantages

Tax advantages incentivize a **10-year hold**

- Deferral of capital gains taxes until earlier of 2026 or upon exit
- Step up in basis
 - 5 year hold – Basis increased 10%
 - 7 year hold – Basis increased 15%
- Elimination of capital gains taxes at 10 years or upon sale

Investment Options

- Project must be in a qualified Opportunity Zone census tract:
 - Qualified Opportunity Zone Property
 - Qualified Opportunity Zone Business
- Investment transaction must occur after December 31, 2017*
- Minimal requirements on project type:
 - can include residential, commercial, hospitality, office, industrial, or an operating business; no “sin” businesses.

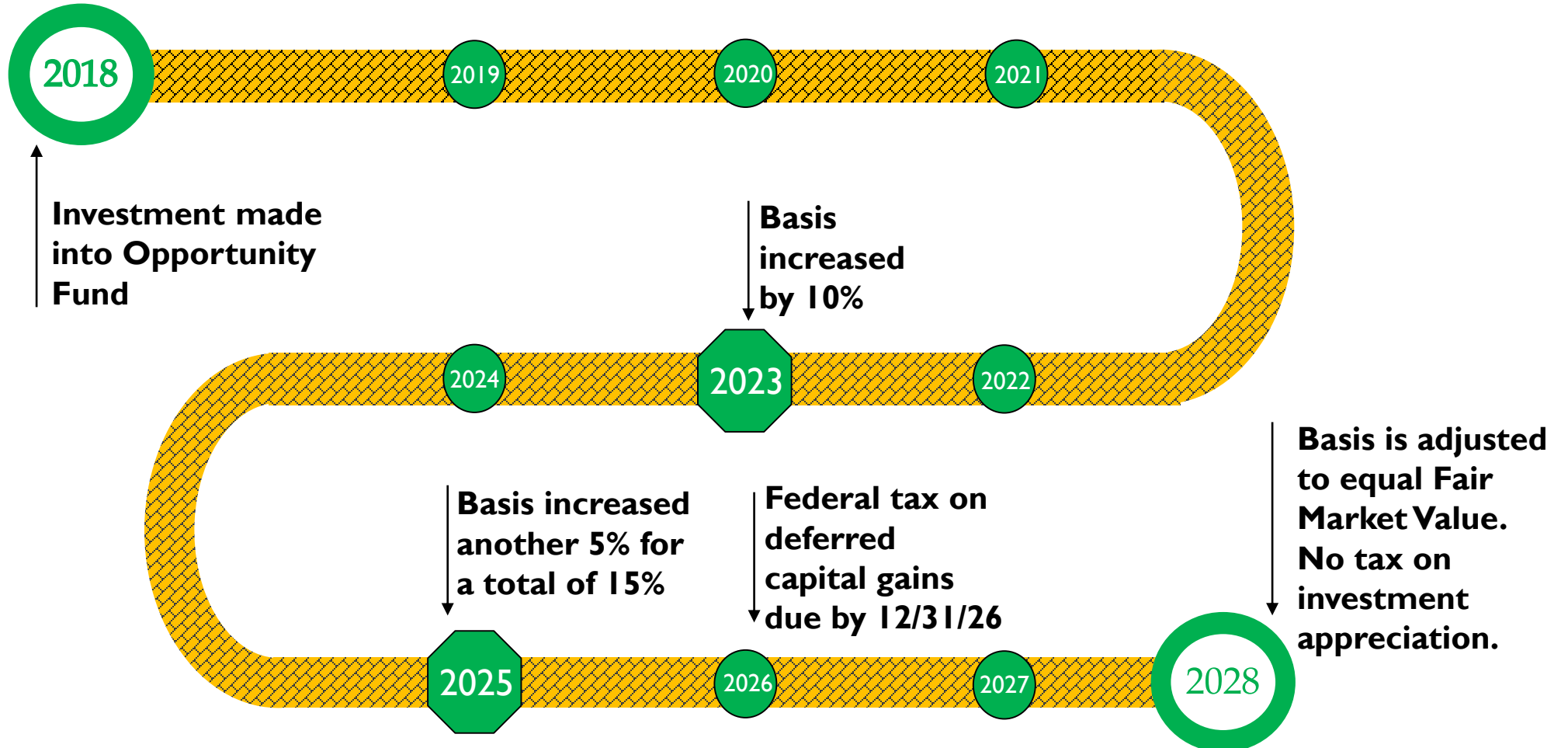
Timing Requirements Are Critical

- Capital gains must be invested in the Opportunity Fund within 180 days of realization.
- Property must be substantially improved during any 30-month period.*

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



OPPORTUNITY ZONES: INVESTMENT TIMELINE



CITIES STARTING TO FOCUS ON OZ INVESTMENT

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

CITIES: USE OZ PROSPECTUS TO ATTRACT INVESTORS

OZ Prospectus: Emphasize **strategy, stability, and **structural advantages** of your city to highlight market opportunities for OZ funds, vision for future growth, and preparation & commitment to investment.**

Prospectus Components

- **City/Regional Momentum** demographic/econ. indicators & growth
- **Economic Development Planning & Zoning Updates**
- **Streamlined Local Processes**
- **Other Funding Sources** e.g. EIFD, TIF, NMTC, etc.
- **Target Areas & Target Projects/Sites**

With over 8,000 approved Opportunity Zones across the country, competition for Opportunity Fund investment is high

WHATS NEXT FOR OZ DEVELOPMENT

Federal OZ Regulations

- Regs and guidance last released in October 2018
- Exec. Order established interagency council for OZ targeting and data collection
- Updated regs expected on February 14th to address key issues:
 - affiliated parties test, business profits/location, original use, investment transfers

California Legislative Changes to Aid OZ Development

- **SB 25:** CEQA streamlining for OZ projects
- **SB 128:** EIFD vote requirement for debt will be eliminated
- **Income Tax Changes:** to be proposed soon

Expansion of California Digital Platform

- **OppSites** will make OZ matchmaking easier for cities and investors





The California OZ Marketplace Is Now Open

[Learn more and post your projects](#)

State of California OZ Marketplace

www.Oppsites.com

OPPSites

Places ▼

Find the places that matter to you

[Home](#)

[Notifications](#)

[Messenger](#)

[About](#)

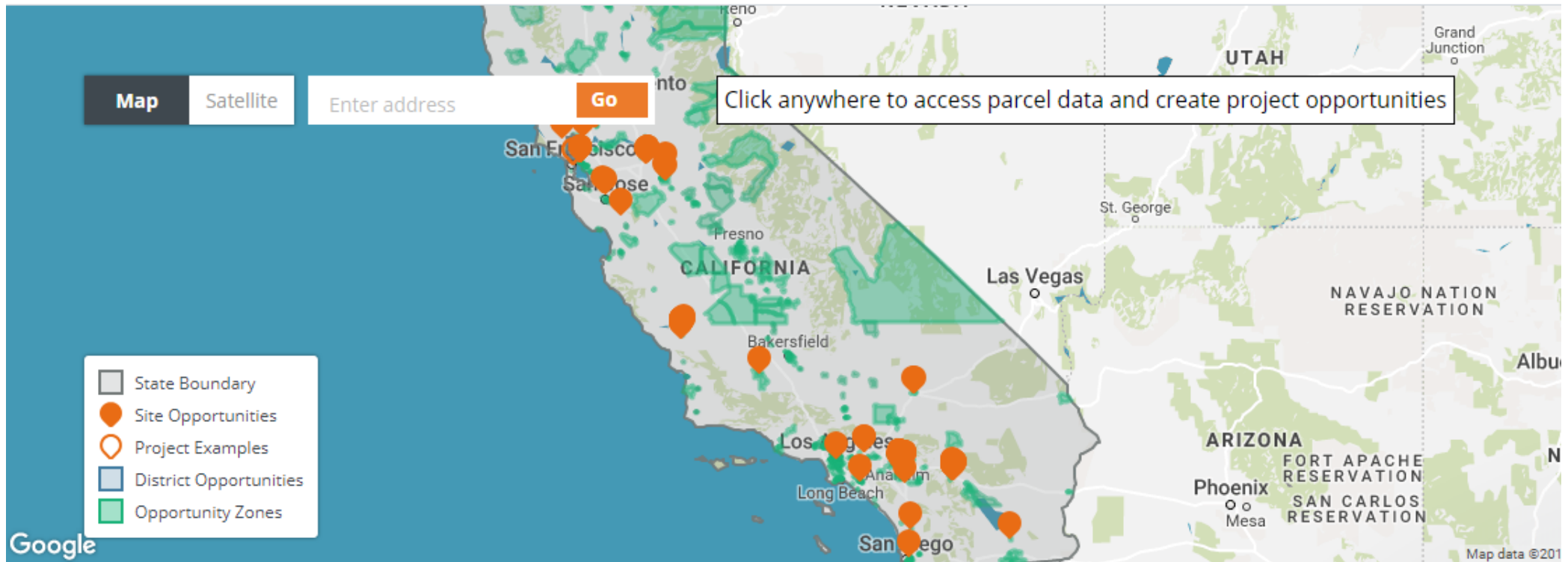
[Profiles](#)

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[Project Marketplace](#)

[Member Network](#)

[Place Networks](#)



California [Learn more about California](#)

[Join Community](#)

The Marketplace & Network

connecting capital to
California communities

The screenshot displays the OppSites website interface. At the top, there is a navigation bar with the logo 'OppSites', a 'Projects' dropdown menu, a search bar with the placeholder text 'Search for projects by keyword', and utility links for 'Home', 'Notifications' (with a '2' badge), 'About', 'Profiles', and 'My Places'. Below the navigation bar are three main sections: 'Project Marketplace', 'Member Network', and 'Place Networks'. The 'Project Marketplace' section features a prominent orange box titled 'Share your Project Search' with the text 'Tell the Community what you are looking for.' and a 'Save and Share' button. To the right of this box is a list of 1421 projects in the network. The first project is '2798 Pass Rd, Biloxi, MS', categorized as 'Mixed Use, General Commercial' and 'Completed'. The second is '2600 W Beach Blvd, Gulfport, MS', categorized as 'General Commercial' and 'Completed', with an 'Opportunity Zone' tag. The third is '9310 Highway 49, Gulfport, MS', categorized as 'General Commercial' and 'Development'. Below these are more projects, including '15096 Creosote Road, Gulfport, MS' and '3505 25th Avenue, Gulfport, MS'. A filter sidebar on the left allows users to 'deselect all filters' and specify 'I want to find' with checkboxes for 'Project Opportunities', 'Development Opportunities', 'Business Opportunities', 'Investment Opportunities', 'Space Available', 'Project Examples', and 'In Opportunity Zones'. It also includes a 'Filter by Place' search bar and a 'Project Types' list with options like 'Transportation', 'Infill Development', 'Downtown or Town Center', etc.



Showcase your Opportunities
Project Marketplace



Create your Profile
Member Network



Connect with Project Partners
Place Networks

Project Marketplace

Discover Business and Real Estate opportunities in Opportunity Zones throughout the nation.

Project Opportunities

- Real Estate Opportunities
- Business Opportunities

Filterable by 'Opportunity Zone', project size, type, location, source, and timing.

Screen shot from the Market Network BETA. The Project Marketplace is already calibrated for Promotion and Discovery of Opportunity Zone projects.

The screenshot displays the OppSites Project Marketplace interface. At the top, there is a navigation bar with the OppSites logo, a search bar for projects by keyword, and links for Home, Notifications (with a 2 badge), About, Profiles, and My Places. Below the navigation bar are three main sections: Project Marketplace, Member Network, and Place Networks.

The Project Marketplace section features a prominent orange box with the text "Share your Project Search" and "Tell the Community what you are looking for." Below this is a "Save and Share" button. To the left of the project listings is a filter sidebar. The sidebar includes a "deselect all filters" link and a section titled "I want to find" with the following options: Project Opportunities (checked), Development Opportunities (checked), Business Opportunities (checked), Investment Opportunities (checked), and Space Available (checked). Below this are checkboxes for "Project Examples" and "In Opportunity Zones". A section titled "Filter by Place" has a dropdown menu labeled "Enter a place". The "Project Types" section includes checkboxes for: Transportation, Infill Development, Downtown or Town Center, Redevelopment or Reuse, Transit Oriented Development, Historic Preservation, Tactical Urbanism, Office/Business Park, Brownfield, Greenfield, Ground Up Development, Public-private Partnership (P3), and Plans and Policies.

The main area displays "1421 Projects in the Network" and shows a grid of project cards. Each card includes a project image, address, location, project type, and the user's name and role. The projects shown are:

- 2798 Pass Rd, Biloxi, MS:** Mixed Use, General Commercial. Status: COMPLETED. User: Peter Saab, Client Communications | NextSit...
- 2600 W Beach Blvd, Gulfport, MS:** General Commercial. Status: COMPLETED. User: Peter Saab, Client Communications | NextSit... (Opportunity Zone)
- 9310 Highway 49, Gulfport, MS:** General Commercial. Status: Development. User: Peter Saab, Client Communications | NextSit...
- 200 Folsom Street, San Francisco, CA:** 4 Collaborators. Status: ONGOING. User: Peter Saab, Client Communications | NextSit...
- Mission District, San Francisco, CA:** 25 Collaborators. Status: ONGOING. User: Peter Saab, Client Communications | NextSit...
- 15096 Creosote Road, Gulfport, MS:** General Commercial. Status: ONGOING. User: Peter Saab, Client Communications | NextSit...
- 3505 25th Avenue, Gulfport, MS:** Research/Medical, Light Industrial, Heavy Industrial, Warehouse or Distribution.... Status: ONGOING. User: Peter Saab, Client Communications | NextSit...
- 119 West Railroad Street, Long Beach, MS:** Other, General Commercial. Status: Development. User: Peter Saab, Client Communications | NextSit...

PlaceNetworks

Connect with projects, funds, sponsors, owner-operators, investors, fund managers, and service providers focused on investing in specific cities and neighborhoods.

Connecting People to Fuel Opportunities

- Create and share project opportunities.
- Find funds operating in specific cities.
- Access fund project requirements, mission, timing, and project interests.
- Connect with local service providers to perform due diligence.
- Receive real-time notifications about activity, new project opportunities, new business opportunities, and new members and organizations.

The screenshot displays the OppSites interface for the Riverside, CA community. At the top, there are navigation links for Home, Notifications (with a badge), About, Profiles, My Places, and a user profile for Ian. Below the navigation is a map of Riverside, CA, with various neighborhoods labeled such as Jurupa Valley, Downtown Riverside, University, and Moreno Valley. A legend on the left of the map identifies symbols for City Boundary, Site Opportunities, Project Examples, District Opportunities, and Opportunity Zones. Below the map, the page title is "Riverside, CA" with a subtitle "Community in Riverside County / California" and a link to "Learn more about Riverside". There are buttons for "Member" and "Notifications". Below this, a navigation bar includes links for "All Updates", "Discussion", "Searches", "Project Opportunities", "People", "Organizations", and "Project Examples".

On the left side of the page, there are two filter sections:

- Professional Expertise:** A list of checkboxes for various professional fields including architecture, real estate, planning, urban design, construction, finance, public affairs, technology, marketing, transportation, engineering, legal, environmental engineering, and capital/lending.
- Project Expertise:** A list of checkboxes for project types such as Transportation, Infill Development, Downtown or Town Center, Redevelopment or Reuse, Transit Oriented Development, Historic Preservation, Tactical Urbanism, Office/Business Park, Brownfield, Greenfield, Ground Up Development, Public-private Partnership (P3), and Plans and Policies.

The main content area features a grid of professional profiles:

- Sarah Humbargar:** 30+ years for things Downtown Colorado Spr... Downtown Partnership of Colorado Spr... (Follow button)
- Steve Ferris:** Management & Development Services fo... The Real Estate Garage (Follow button)
- Tommy Pacello:** President, Memphis Medical District Collaborative (Following button)
- Nathan Norris:** Founding Principal, CityBuilding Partnership LLC (Following button)
- Emily Brown:** Director of Economic Strategy, Fourth Economy Consulting (Following button)
- Randy Saffold:** Sr. Management Analyst, City of Manteca, CA (Following button)

On the right side, there is a section titled "Have an Opportunity to add in Riverside?" with links for "Add Development Opportunity", "Add Business Opportunity", "Add Investment Opportunity", and "Add Available Space". Below this is another section "Share your past projects with Riverside" with a link for "Add Project Examples". At the bottom right, there is a section "Tell the community what you're looking for" with links for "Development Opportunities", "Business Opportunities", "Investment Opportunities", "Available Space", "People and organizations", and "Best Practices and Resources (Coming soon)".

Three Steps to Join the Conversation

**1. Create
your Profile**

**2. Join
Place Networks**

**3. Share
Opportunities**



C A L I F O R N I A
OPPORTUNITY ZONES

OPPSites

California Department of General Services

- Thousands of Surplus Properties
- For sale, for lease and P3 Opportunities in Opportunity Zones and nearby Districts.
- Connecting capital to California cities and counties.

The screenshot shows the OppSites website interface. At the top, there is a search bar with the text "Search for projects by keyword" and a "Projects" dropdown menu. To the right, there are links for "About", "Log In", and "Join". Below the search bar, there are three main navigation tabs: "Project Marketplace", "Member Network", and "Place Networks". The main content area features a large banner image of the California State Capitol building. On the left side of the banner, there is a profile card for the "California Department of General Services" (DGS). The profile card includes the DGS logo, a "Follow" button, and a "Join Org" button. Below the profile card, there is an "About Us" section with a brief description of the department's role. To the right of the profile card, there is a navigation menu with options: "About", "People", "Project Opportunities" (which is highlighted), "Project Examples", "Places", and "Searching For". Below the navigation menu, there are three project listings, each with a thumbnail image, a title, and a brief description. The first listing is "State Owned Pomona Park Armory Pomona", the second is "State owned Brawley Armory Brawley", and the third is "State Surplus: Santa Ana State Building Santa Ana". Each listing also includes a "Development" button, a "Business" button, an "Investment" button, and a "Space" button. At the bottom of the page, there is a footer with the "OppSites" logo.

PRESENTATION OUTLINE



- Brief Overview Of OZ Program
- **State of Opportunity Zones in California**
- Aspects of Opportunity Zone Implementation

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CITIES MUST GET PREPARED:

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

OPPORTUNITY ZONE READY GUIDE

Local Jurisdiction Readiness

- 1. Education on Opportunity Zones and benefits – City Council and Staff**
 - Community support and engagement needed for future success
- 2. Review and Update Economic Development Plans within each District**
 - When were they last updated? Are housing and transit priorities considered?
 - Do they conform with current priorities/needs?
 - Assess current and future infrastructure needs, as aligned with proposed changes.
- 3. Review existing Specific Plans**
 - In alignment with economic development, housing, mobility, and sustainability goals?
 - Existing CEQA documents to tier off - important in streamlining approval processes for Opportunity Zone projects

OPPORTUNITY ZONE READY GUIDE

Local Jurisdiction Readiness

4. **For each district, identify the best fit for Opportunity Funds:**
 - Opportunity Zone **Business** or Opportunity Zone **Property** or **Both**
 - Includes a review of parcels; size, current zoning
5. **Identify property and business owners in designated Opportunity Zones**
6. **Evaluate local project approval processes**
 - What can be streamlined?
 - What are the current impediments that need to be addressed?
 - Community outreach – ensure community is ready and on board, and identify desired community benefits

OZ PROSPECTUS: PREP FOR INVESTOR DUE DILIGENCE

OZ Prospectus Should Highlight Market Opportunities to OZ Funds

- Long term economic strength and appreciation potential (compared to other cities)
- Recent/pending investments in OZ area
- Streamlining and other services offered to Opportunity Zone projects
- Other funding sources and grant programs available
- Capability to induce public/private investment in OZs via TIF & housing funds
- Prioritized, investable projects in target OZ areas

KEY STEPS FOR CITIES TO GET READY

- ❑ **Update Local Permitting and Zoning**
- ❑ **Know Your O Zone:** Identify key projects and 10-15 year economic demand data and workforce drivers that you can highlight for investors
- ❑ **Catalogue Pending Investments:** Already planned by city, county, MPOs, local community foundations that offer co-investment opportunities to private investors
- ❑ **Create OZ Investor Prospectus – Be Prepared for Investor Due Diligence**
 - Generate Project Pipeline
 - Prioritize; become deal jockeys for your investable projects
 - Catalogue local private investors already working in your zones/community foundations
 - Use state marketplace (*OppSites*) to upload projects, research sources & investor directories
 - Ask for term sheet that defines what investors are looking for

OZs: NEW PRIORITY FOR CA ECON. DEVELOPMENT

2019-2020 State Budget: Gov. Newsom sets OZs and EIFDs as a **priority**

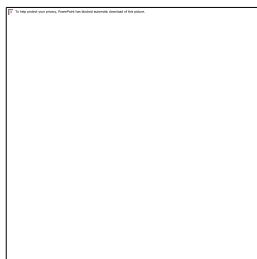
- **Pair EIFDs with OZs** leverage earlier OZ investment with longer term tax increment (SB 128)
- **Conform CA Income Tax** with fed. income tax sched. for **low/mod. housing & greentech**
- **Excess State Property** to be put to the market (OppSites Marketplace)
- **CEQA Streamlining** for certain OZ projects to mitigate timing challenges (SB 25)

“To make Opportunity Zones more effective, the state will conform to federal law allowing for deferred and reduced taxes on capital gains in Opportunity Zones for investments in **green technology** or in **affordable housing**, and for exclusion of gains on such investments in Opportunity Zones held for 10 years or more.”

- Budget Summary, Governor Newsom's 2019-2020 Proposed Budget

OPPORTUNITY ZONES

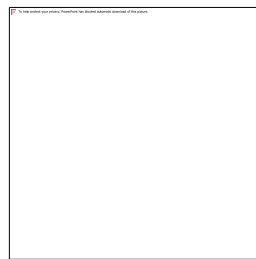
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