

From: "Morris, Paul V" <[REDACTED]>

To: "jeffrey E." <jeevacation@gmail.com>

Subject: Opportunity Zones

Date: Tue, 15 Jan 2019 16:44:33 +0000

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Hope all well, are you doing anything around these or clients?

In a former warehouse on a dimly lit street in the South Bronx, developers sipping Puerto Rican moonshine listened as a local official urged them to capture a new U.S. tax break by rebuilding the decaying neighborhood.

In Alabama, a young lawyer quit his job after seeing the same tax break's potential to help one of the nation's poorest states. He now spends his days driving his Hyundai from town to town, slideshow at the ready, hoping to connect investors with communities.

And on a conference call with potential clients, a prominent hedge fund executive pitched investments in a boutique hotel in Oakland, which he described as San Francisco's Brooklyn. The project is eligible for the same tax break, designed to help the poor.

Betting on Opportunity Zones

Sales of development sites are surging in areas eligible for tax breaks

Source: Real Capital Analytics

Fervor about opportunity zones is heating up across the U.S. For a limited time, investors who develop real estate or fund businesses in these areas are able to defer capital gains on profits earned elsewhere and completely eliminate them on new investments in 8,700 low-income census tracts. The goal is to reinvigorate these areas. But the question is whether the 2017 tax law will, as U.S. Treasury Secretary Steven Mnuchin predicts, pump \$100 billion into places that need it most, or if investors will play it safe by funding projects in a few zones already on the upswing.

[QuicktakeWill 'Opportunity Zones' Help the Rich, the Poor or Both?](#)

There's no lack of optimism among officials in shrinking Rust Belt towns, wind-swept Western landscapes and hurricane-ravaged [Puerto Rico](#), who hope to jump-start local economies. The incentives are so flexible they could be used for everything from affordable housing to solar farms. Yet on the investor side, much of the attention is fixed on how to turn a profit in already thriving areas. They include neighborhoods surrounding Manhattan, [Atlantic beach towns](#) drawing vacation-home developers, bedroom communities near Silicon Valley and anomalies like Portland, Oregon, where the entire downtown was deemed eligible for the breaks.

"The phrase I keep thinking of is 'gold rush,'" said Michael Lortz, an accountant who works with developers in Portland. "There's a lot of money from out of town that's coming here."

Already, a policy debate is raging. Backers are urging people to reserve judgment and say the tax breaks have galvanized cities, businesses and investors to think creatively about boosting parts of the country most in need. Critics say the incentives were poorly calibrated and may amount to a boondoggle [far in excess](#) of the official \$1.6 billion projected cost.

Americans may have to wait months or years to learn which side is right. That's because the law doesn't require investors to disclose projects, making it difficult to tell which areas are benefiting the most.

But there's plenty of evidence that a boom is brewing. [Goldman Sachs Group Inc.](#), which already had an investment team focusing on struggling communities, has disclosed about \$150 million in projects in recent months. Purchases of sites inside opportunity zones spiked as the tax law took effect, outpacing growth in other areas, according to Real Capital Analytics, which tracks property sales. Altogether, investors spent 62 percent more on properties eligible for tax breaks in the 12

months through September, compared with those in the same census tracts a year earlier, its data show.

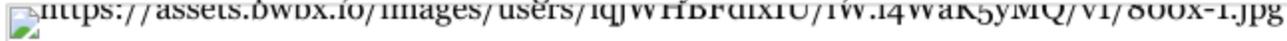
Here are snapshots of what's happening across America:

Bronx Boost

Port Morris Distillery, which makes a high-alcohol rum called pitorro, was the perfect spot for an opportunity zone pitch. It's on a block with a colorful mural, industrial buildings ready for loft conversions and views of the Manhattan skyline. Much of the surrounding South Bronx is now an opportunity zone.

"We have always been the most ignored," Marlene Cintron, the borough's head of economic development, told an audience of developers and lawyers in November. "These opportunity zones are here for you to take advantage of them."

The case for the Bronx, where incomes are among the lowest in New York, is that it's the last borough awaiting revitalization. The tax incentives are designed to unleash it. If developers can buy at current Bronx prices, before seeing a Brooklyn-like rise, the breaks would be massive.

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The Bronx Tavern and Port Morris Distillery.

Photographer: David 'Dee' Delgado/Bloomberg

"Huge, huge upside that you're not going to get if you build a strip mall in Topeka," said Terri Adler, managing partner of law firm Duval & Stachenfeld LLP, who also spoke at the event.

Yet the Bronx faces a formidable problem: It's competing with other zones across the city, including waterfronts in Brooklyn and Queens with stronger momentum. The tax break Bronx officials hope will rejuvenate their borough may instead lure more money to what looks like a safer bet across the river.

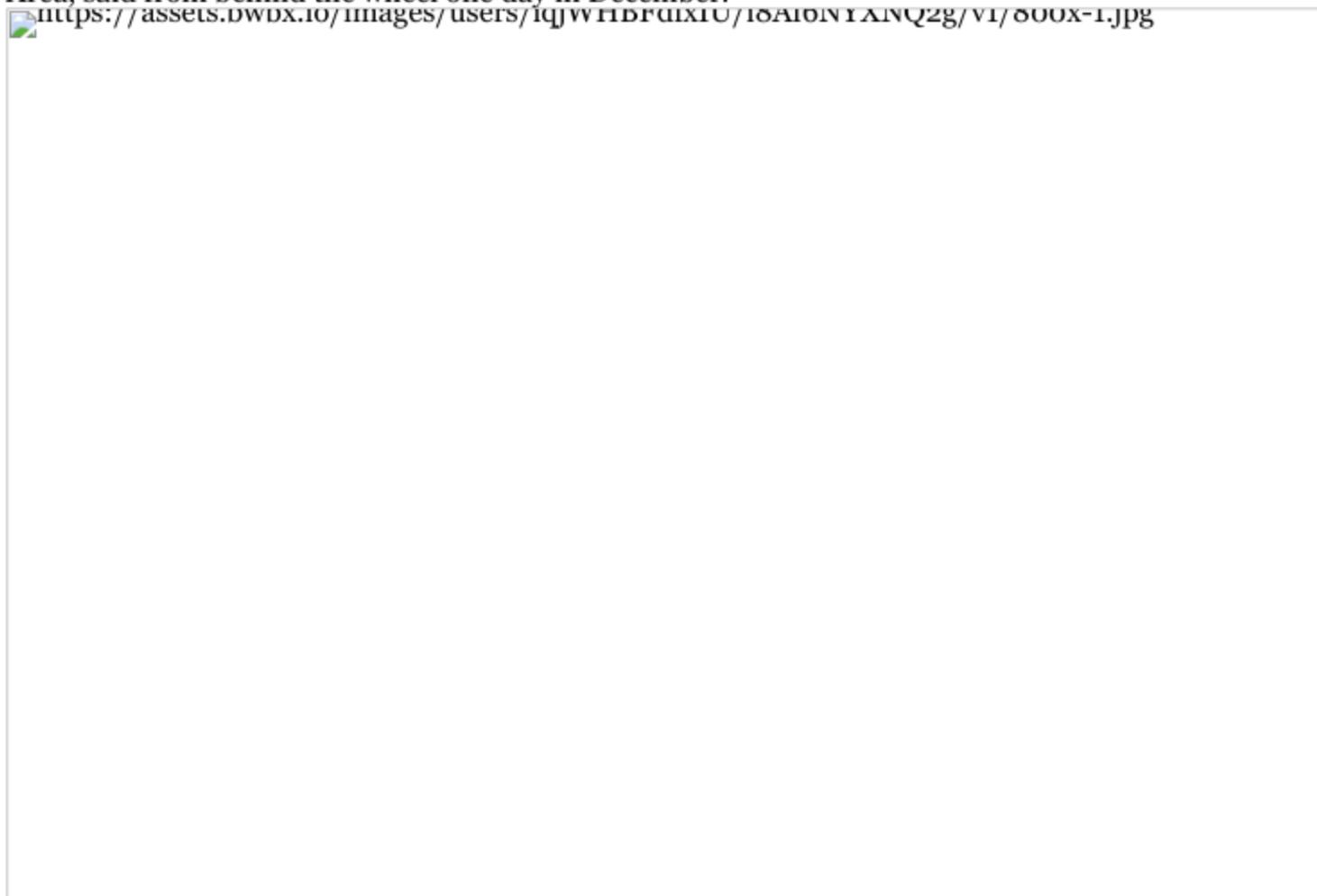
In November, [Amazon.com Inc.](#) selected [Long Island City](#) for its next headquarters. Portions of that Queens neighborhood, including a former plastics factory the retailer plans to occupy, are inside

opportunity zones, even though they're among the city's fastest-growing areas. In 2017, more apartments were built there than in any other neighborhood in the city.

Driving Alabama

Alex Flachsbart, 30, has a lot of time to talk when he's in his SUV crisscrossing Alabama. A lawyer who specialized in economic development grants and tax breaks, he quit his job last year to start Opportunity Alabama, aiming to connect capital to worthy projects. For the past several months, he's been educating people about opportunity zones, speaking to local officials, businesses and investors.

"I have done the OZ PowerPoint God knows how many times," Flachsbart, who grew up in the Bay Area, said from behind the wheel one day in December.

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Alex Flachsbart gives a presentation on opportunity zones in Athens, Alabama.

Photographer: Nicole Craine/Bloomberg

When he read about opportunity zones in a 2017 draft of the Tax Cuts and Jobs Act, his mind reeled. Here was an uncapped subsidy far more flexible than anything he'd used before. It could draw investment for an array of projects. He imagined funding startups in Huntsville, where NASA's presence has lured a deep bench of talented engineers, and the renovation of an old civic complex in Mobile.

Flachsbart's nonprofit—which has board members from the state's largest utility and its biggest bank, [Regions Financial Corp.](#)—is now in talks for 10 potential projects that need more than \$100 million in equity investment, he said. None have been funded yet, but he's certain some will be. Meanwhile, he keeps driving.

Baltimore Billionaire

One of the arguments over opportunity zones is whether the U.S. is handing wealthy investors and companies big breaks on projects they would've done anyway. One example: Hedge fund executive

and former White House spokesman Anthony Scaramucci plans to build a “swank, boutique hotel” in Oakland. The paperwork for the permit was filed months before the neighborhood was designated an opportunity zone.

But that project pales in comparison to what’s happening in Baltimore. More than a year before President Donald Trump signed the law, real estate developer Steven Siegel helped negotiate one of the largest public financing deals of its kind for a client, a company owned by billionaire Kevin Plank, founder of athletic-wear maker [Under Armour Inc.](#)

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Port Covington area of Baltimore.

Photographer: Sarah L. Voisin/The Washington Post via Getty Images

In 2016, Baltimore’s city council approved a \$660 million financing package for a 235-acre mixed-use development, including new offices for Under Armour, along the city’s waterfront. The area was already designated as an enterprise zone and a brownfield site, connoting additional lucrative tax breaks, and the project attracted a \$233 million investment from Goldman Sachs’s urban investment group.

Then came the opportunity zone designation.

The tax break is only supposed to apply to real estate purchased after the law took effect. But lawyers across the country quickly began working around that to get the benefits for projects planned before the law was passed. Many tax experts have recommended sales to new entities. So long as the seller owns no more than 20 percent of the buyer, the transaction counts as arm’s-length and qualifies.

Siegel said his firm, Weller Development, has found enough new investors to comply with the arm’s-length requirement. The company has seen so much demand, he said, that he’s looking to replicate the project elsewhere.

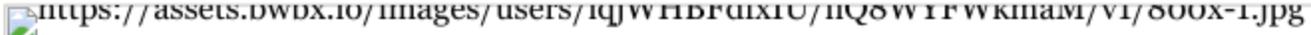
“We’ve been fielding a lot of inbound interest,” Siegel said, declining to name cities that have approached him. “That stimulated us to take this show on the road.”

Boulder Balks

In mid-December, during a marathon city council meeting that stretched past midnight, Boulder became perhaps the first jurisdiction in the country to reject its own opportunity zone. Officials in the Colorado town imposed an 18-month moratorium on almost all development in its only census tract earmarked for the incentives.

The move highlights how local officials have the power to respond to criticisms of the law—in this case, that investors may rush to build projects the community doesn't want. Boulder has long been a favorite spot for growing companies because people want to live there, thanks to its college-town vibe and quick access to nature.

“People think we have too much” development, said Bob Yates, a council member. “We’re not Detroit.”

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An eyebrow salon is surrounded by empty stores at Diagonal Plaza in Boulder.

Photographer: Rachel Woolf/Bloomberg

Though Yates, a former telecom executive, opposed the moratorium and worries it will make things difficult for businesses in the zone, he understands why people in Boulder, a liberal enclave, were skeptical of an idea enacted by a Republican Congress. He just wishes his city would take a more measured approach.

The zone includes an aging mall called Diagonal Plaza. The tax incentives could have spurred investors to redevelop it to include affordable housing, which is sorely needed, he said.

“Boulder’s teachers can’t live in Boulder,” he said. “It’s not a healthy thing to have socioeconomic divide where lower-income people have to live outside of town to serve higher-income people in town.”

Private Banking and Investment Group
Bank of America Merrill Lynch
One Bryant Park, 28th Floor

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