



Opportunity Zones New Housing Buzz

It's now almost a year since Congress passed the Tax Cut & Jobs Act of 2017 and a cryptic provision tucked into it -- Opportunity Zones -- has become the buzzword of the affordable housing rescue and blighted urban neighborhood rejuvenation.

A research bulletin issued by Yardi Matrix, a real estate research and data platform, sorts through the confusion to show how Opportunity Zones work, the risks involved, and what they are meant to accomplish.

At the same time, in an almost parallel move, the Census Bureau, in conjunction with Harvard and Brown University researchers, unveils its "Opportunity Atlas."

The Atlas provides a comprehensive compilation of neighborhood data showing where children have the best opportunity for climbing the income ladder as adults. It also provides an interactive map for users to research any neighborhood in the country.

The Council of Development Finance Agencies also has compiled a state-by state performance report showing the scope of involvement of the states in furthering the program

Armed with that information, investors and others can determine where best to apply their resources to improve blighted neighborhoods that could provide the best return on their investments.

The Opportunity Zone provision of the tax cut and jobs law allows investors to defer or avoid taxes on capital gains from any investment sale -- stocks, bonds, partnership interests, or real estate -- if the money is reinvested in an Opportunity Zone.

The program is designed to drive long-term capital to low-income urban neighborhoods and rural communities throughout the nation and uses the tax incentives to encourage private investment in impact funds.

Investors are already poised to invest their capital gains into one or more of the 8,700-plus areas identified by the Treasury Department in the law as Opportunity Zones.

Shareholders who hold their investments for five years will pay no taxes on 10% of the gains.

After seven years, 13% of the gains will be tax-free. Those who hold investments for 10 years will avoid paying taxes on all gains, according to Yardi.

There are still questions surrounding the investment opportunity, questions surfacing in the wake of the congressional rush to pass the tax bill. But even though some of the law's provisions are short on specifics, investors have lined up with ambitious projects.

The Treasury Department is putting the finishing touches on clarifications that are expected to be issued in coming weeks, but the new regulations and guidance will not be final until a public comment period ends.

One of the law's provisions is most perplexing. The capital gains deferment for the five-year and seven-year tax breaks expires Dec.31, 2026. That means investors wanting to take advantage of the seven-year break must have plans approved by Dec. 31, 2019.

Without Treasury Department specific guidelines, investment firms are operating in overdrive to raise money, find a project, compile the necessary documents, and commit capital in less than 15 months. The new guidelines are expected to answer those questions.

The Internal Revenue Service has filed a proposed rule with the Office of Management & Budget. The OMB will review the proposal, titled "Capital Gains Invested in Opportunity Zones." It will be published in the Federal Register soon after the review is completed. *HAL* will keep you up-to-date on the rule's progress,

Regardless of the short-term uncertainties, the law has unleashed a massive amount of activity to establish investment funds, raise capital and target potential investment opportunities. Economists estimate the value of unrealized capital gains poses the creation of a sizeable new sector in the real estate investment market.

The outlook so far shows activity at such a furious pace that likely will result in an economic, housing, and social turnaround for thousands of neighborhoods across the nation, including Puerto Rico and the U.S. Virgin Islands.

Info: See the Yardi Matrix report at www.cdpublications.com/docs/9548, the Census Bureau neighborhoods report at www.cdpublicatiosn.com/docs/9549 and the CDFA report at www.cdpublications.com/docs/9550

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