HUD’S OFFICE OF NATIVE AMERICAN PROGRAMS

Opportunity Zones Webinar Series

Webinar 2: Opportunity Zones and Resources
May 19th, 2021
Welcome

Heidi J. Frechette serves as the Deputy Assistant Secretary for HUD’s Office of Native American Programs. In her capacity, she manages a number of programs dedicated to Native American communities – including one that is the largest source of housing assistance – and leads a team of professionals in Washington, D.C., and eight other offices located throughout the country.
Our Presenters

**Enterprise** was founded in 1982 as one of America’s original social enterprises, to work with partners in communities nationwide. Enterprise brings together the people and resources to create affordable housing in strong neighborhoods. Within Enterprise are entities that help communities develop programs, lend funds, finance development, and manage and build affordable housing.

**SPEAKERS**
Patrick Jordan, VP Integration
Orlando Velez, Director HUD Grantee and Local Partners
Michelle Grainger, Program Director

**PANELISTS**
Susan Anderson, Senior Director, Rural & Native American
Dustin Baird, Native Housing Program Officer

Nothing in this primer is intended, nor should it be relied upon, as legal advice. Rather, it is meant to better equip tribal governments to work with legal and tax professionals they retain to harness the tax benefits of creating or expanding tribal businesses in such areas.
Agenda

- Setting the stage
  - What’s the purpose of a Qualified Opportunity Zone?
  - Where do Opportunity Zones exist on Tribal Land?

- Opportunities and Approaches to Compliment OZ Investments
  - How other entities are utilizing Opportunity Zones
  - LIHTC
  - New Markets
  - Qualified Opportunity Fund

- Partnering Communities
  - Native Affordable Housing Design Leadership Institute (NAHDLI)
  - Santa Clara
  - Cheyenne River Housing Authority
Setting the Stage

Webinar series:
- I: OZ 101, February 13, 2020
  https://www.youtube.com/watch?v=BCqO9Bmb- w
- III: Engaging Investors, TBD

What’s the purpose of a Qualified Opportunity Zone?
- Spur economic development and job creation
- Provides tax benefits to investors
- Incentivize private and public investments
- Chance to develop strategies and align policies that harness the tax incentive, while serving the needs of residents
Setting the Stage

Where do Opportunity Zones exist?

8,764 Opportunity Zones

Source: https://www.enterprisecommunity.org/opportunity360/opportunity-zone-eligibility-tool
Setting the Stage

Where do Opportunity Zones exist on Tribal Land?

8,764 Opportunity Zones

362 overlap with Tribal Land

Source: https://www.enterprisecommunity.org/opportunity360/opportunity-zone-eligibility-tool
Opportunities & Approaches to Complement OZ Investments

- With 8,700 Opportunity Zones, capital solutions for a diverse mix of projects are not one size fits all.
- Complementary funding sources are often critical for deal feasibility.
  - New Market Tax Credit
  - Low-Income-Housing-Tax-Credit
Opportunities & Approaches to Complement OZ Investments

How other entities are utilizing Opportunity Zones

Ox Fibre Apartments

- Frederick, MD
- Adaptive reuse of historic warehouse into 83 new affordable apartment

Capital Stack:

- FreddieMac debt – $10.5 million
- Housing Credit equity – $7.1 million
- Historic Tax Credit equity – $4.4 million
- Opportunity Zones equity – $830,000
- State and County debt – $3.4 million
- Deferred Developer Fee – $670,000

TDC: Approximately $27 million

Source: Economic Innovation Group www.eig.org
Opportunities & Approaches to Complement OZ Investments

How other entities are utilizing Opportunity Zones

698 Prospect Phase I
- Pembroke, NC
- Housing for students attending a rural state university

Capital Stack:
- $3 million Opportunity Zone equity investment from Woodforest CEI-Boulos Opportunity Fund
- $10.77 million loan from Self-Help Credit Union
- $840,000 developer equity from PB Pembroke Owner, LLC

**TDC: Approximately $14.6 million**

Source: Economic Innovation Group www.eig.org
Opportunities & Approaches to Complement OZ Investments

- LIHTC (Low-Income Housing Tax Credit) – How they work
  - Subsidizes the acquisition, construction, and rehabilitation of affordable rental housing for low- and moderate-income tenants
  - Operates as “soft equity,” meaning projects that meet program requirements for 15 years do not repay the funding
  - Unit composition can meet any of three requirements for rents:
    - At least 20% of units are affordable at 50% AMI
    - At least 40% of units are affordable at 60% AMI
    - At least 40% of units are affordable at an average of 60% AMI (all under 80%)
  - Credits are awarded to developers through competition by State Housing Finance Agencies, determined by Qualified Action Plans
  - Approximately $9.5 billion per year - by far the largest federal program for creating affordable rental housing
  - LIHTC projects are often paired with HOME Program funds
Opportunities & Approaches to Complement OZ Investments

- LIHTC – Barriers and Potential Impact
  - LIHTC includes complicated financing and project regulatory requirements: developer must have strong experience and expertise
  - Combining Opportunity Zone incentives with LIHTC is possible. Investors want to see:
    - Projects with an IRR of at least 7-10%
    - Projects that will meet modest cash flow requirements for a 15-year period, with lower IRR.
  - Projects that generate IRRs exceeding 7% are less likely to demonstrate a need for LIHTC financing.
  - However, LIHTC can cover as high as 70% of a project budget, so it is exceedingly useful and can be used in any location, including OZs.
  - LIHTC projects in OZs can complement other OZ projects.
Opportunities & Approaches to Complement OZ Investments

- New Market Tax Credits – How they work
  - Place-based tax credit used in qualifying census tracts, comprising 43% of the U.S.
  - Investment can cover up to 39% of a project’s budget
  - About $1.9 billion per year in credits are competitively awarded by U.S. Treasury to Community Development Entities, or CDEs (often CDFIs or mission-oriented lenders)
  - CDEs provide NMTC investments in “Qualified active low-income community businesses” (QALICBs) – for-profit or nonprofit are both eligible
  - Uses are flexible: finance equipment, operations, or real estate.
  - Real estate financing can purchase or rehab retail, manufacturing, agriculture, rental or for-sale housing, or community facilities (ex: health services, museums, charter schools)
Opportunities & Approaches to Complement OZ Investments

- New Markets - Barriers and Potential Impact
  - Nothing precludes combining NMTC and OZ incentives in a project, but it’s important to remember:
    - Complicated financing and regulatory requirements require strong expertise
    - Investors have different expectations for rates of return
  - CDEs generally use NMTC to subsidize loans for a QALICB. Pairing OZ incentives with NMTCs requires the investment be made in the form of project equity to a QALICB.
  - If a CDE was awarded NMTC allocation through a strategy to subsidize loans, it may need approval from the CDFI Fund to make equity investments.
  - NMTC projects in OZs can complement other OZ projects.
Opportunities & Approaches to Complement OZ Investments

- How Tribes can ready themselves for Low-Income Housing and New Markets Tax Credits
  - Review State Qualified Action Plan (LIHTC)
  - Opportunities for partnerships:
    - Developers with IHTC experience with LIHTC and NMTC
    - CDFIs with a NMTC allocation from Treasury
  - Tribal community potential roles: land owner/lessor, development partner, funding partner
  - Develop or tie to a strategy that describes:
    - How these tools benefit your project and
    - Address Tribal needs on housing and economic development
Qualified Opportunity Funds

What is a QOF & the role of a QOF

- A QOF is an investment vehicle that is specifically designed to invest in a Qualified Opportunity Zone across the US
- Once established as a QOF, need to make 90% of their investments in a QOZ

Top 10 States/Territories by Planned QOF Equity Investment

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<th>Investment States/ Territories</th>
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<th>Total Equity Raised</th>
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Source: Novogradac (*Map as of April 12, 2020 / ** As of September 1, 2020)
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Anahi sells her investment. • Pays capital gains on $85K of the initial $100K and • All gains from the investment are taxed free.
Qualified Opportunity Funds

What is a QOF & the role of a QOF

- With more than $16.3B* in funds raised in QOFs as of 1Q21, interest in impactful community investments and measurable outcomes grows.

*As of April 12, 2021 (Novogradac)
Qualified Opportunity Funds

What is a QOF & the role of a QOF

- With more than $16.3B* in funds raised in QOFs as of 1Q21, interest in impactful community investments and measurable outcomes grows.
- Largely focused on residential and commercial investments.
- 114 are fully subscribed.

*As of April 12, 2021 (Novogradac)
Woodforest CEI-Boulos Opportunity Fund

Woodforest National Bank® created the Woodforest CEI-Boulos Opportunity Fund with CEI-Boulos Capital Management, LLC, a joint venture of Coastal Enterprises, Inc., a leading national Community Development Financial Institution (CDFI) with a strong track record of meeting community needs in rural areas and small gateway cities, and The Boulos Company, an integrated commercial real estate firm with broad experience in capital markets and real estate development.

https://www.woodforest.com/WoodforestCares/Community-Development/Economic-Development-and-Revitalization
Qualified Opportunity Funds

How do Corporations or Partnerships and LLCs become QOFs

- An LLC that chooses to be treated either as a partnership or corporation for federal income tax purposes and is organized for the purpose of investing in Qualified Opportunity Zone property can be a QOF.

- To become a QOF, an eligible corporation or partnership self-certifies by annually filing Form 8996 with its federal income tax return.

What to look out when putting a deal together

- Project readiness / pre-development friction
- Market limitations / development cost curve
- Misalignment stakeholder / community priorities
- Asset class trends / static market
How other communities attract investments from QOFs

Source: https://www.emeraldfunds.org/
Qualifed Opportunity Funds

How to find a QOF?

- Novogradac Opportunity Fund List

- Native American Finance Officers Association Opportunity Zone Resource Network
  https://nafoa.org/opportunity_zones

- National Council of State Housing Agencies (NCSHA) Opportunity Zone Fund Directory
  https://www.ncsha.org/resource/opportunity-zone-fund-directory/
Qualified Opportunity Funds

Source: https://eig.org/oz-activity-map
**Partnering Communities**

**Native Affordable Housing Design Leadership Institute (NAHDLI)**

- Enterprise Community Partners Rural and Native American Program supports the development of **safe, decent and culturally appropriate housing** in Native nations and rural communities.

- **NAHDLI:**
  - Rural and Native American Program, Enterprise Community Partners,
  - The Sustainable Native Community Design Lab, MASS Design Group
  - Osso Studio
  - Landon Bone Baker Architects,
  - AOS Architects,
  - Mahlum
  - Harvard Indigenous Design Group

Source: [https://www.ENTERPRISECOMMUNITY.ORG/BLOG/NATIVE-AFFORDABLE-HOUSING-DESIGN-LEADERSHIP-INSTITUTE-LAUNCHES](https://www.enterprisecommunity.org/blog/native-affordable-housing-design-leadership-institute-launches)
Partnering Communities

- **Project Description: Santa Clara Pueblo, Española, NM**
  - Mixed-use development on 48-acres
  - To be executed in four phases, totaling ~180 homes.
  - Partnership between Tribe and Public Housing Authority
  - Early focus had been on infrastructure needs and overall project financing
  - Existing capacity on finance, planning, and construction
  - Project financing goals and hurdles
Partnering Communities – Cheyenne River Housing Authority

Project Description: **Wapkamni OThipi - Eagle Butte, SD**

- **Number of Units**: 12 to 22 units.
- **Targeted Population**:
  - ~10% of the apartments to be occupied by veterans
  - ~10% by seniors or disabled individuals
- **Mixed-use commercial and residential project** with a minimum of two levels, possibly three.
- **Upper levels**: 10 apartments per level.
- **Ground floor**: 2 apartments with commercial space estimated at 3600 sq. ft.
  - Planned community room and businesses spaces
  - Spaces will be configured in consultation with local Native CDFI.
Partnering Communities – Cheyenne River Cont'd

- **Project Description:**
  - **Apartments:** Mix of studio, 1 bed and 2 beds.
  - **Average size:** 725 square feet.
  - **Apartments will include** forced air propane heat, central AC, promote cook stoves and electric hot water heaters.
  - **Some amenities include:**
    - Steel siding and steel roofing.
    - Detached garage parking.
    - On-site management and maintenance
    - Video surveillance
    - Access to public transportation
    - Access to on-site community room.
  - **Tenant pays** heating, water/sewer and garbage.

Source: Native Affordable Housing Design Leadership Institute 2020 Program Book
Partnering Communities – Community Needs

- Community needs
  - Increased housing for low-income families
  - Alternative living-arrangements for young professionals, who want independence and have the ability to later own a home
  - Affordable commercial space for local Native entrepreneurs
  - More businesses to expand economic growth
Partnering Communities – Financing Goals

- **Project Financing Goals**
  - Designing and financing a mixed-use and residential development project to incorporate business development, expand housing choices and economic development.
  - Increase capacity in apartment design and construction due to prevalence of single detached homes.
  - Remain responsive to community, funders and tribal leaders’ expectations.
  - Increase knowledge about New Market Tax Credit as an underutilized financing option for Tribal entities.
Partnering Communities – Financing Hurdles

- Project Financing Hurdles
  - Interest in pursuing NMTC as a financing option
  - Finding 80% investment in the project (having reduced debt)
  - Attracting entrepreneurs to stimulate business activity in the area huge hurdle
  - Early stages of exploring potential investors
- Moving Project Forward
  - Team aims to boost its planning budget
  - Team haven't advanced to this stage
- Approach to Financing
  - Exploring Housing trust funds
Resources

Webinar series:
- I: OZ 101, February 13, 2020
  https://www.youtube.com/watch?v=BCqO98mb- w
- III: Engaging Investors, TBD

Additional Resources:
- Additional Questions can be sent to:
  codetalk@hud.gov
- Office of Native American Programs – HUD
  https://www.hud.gov/program_offices/public_indian_housing/ih
- Novogradac Opportunity Fund List
- National Council of State Housing Agencies (NCSHA) Opportunity Fund Directory
  https://www.ncsha.org/resource/opportunity-zone-fund-directory/
- Opportunity Zones in Indian Country – US Department of the Interior
- Opportunity Zone Toolkit Volume 1 – HUD
- Economic Innovation Group Opportunity Zones Activity Map
  https://eig.org/oz-activity-map
- Leveraging Development Finance Tools to Attract Opportunity Zone Investment
Questions?

For additional questions, contact: codetalk@hud.gov
THANK YOU for joining