



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

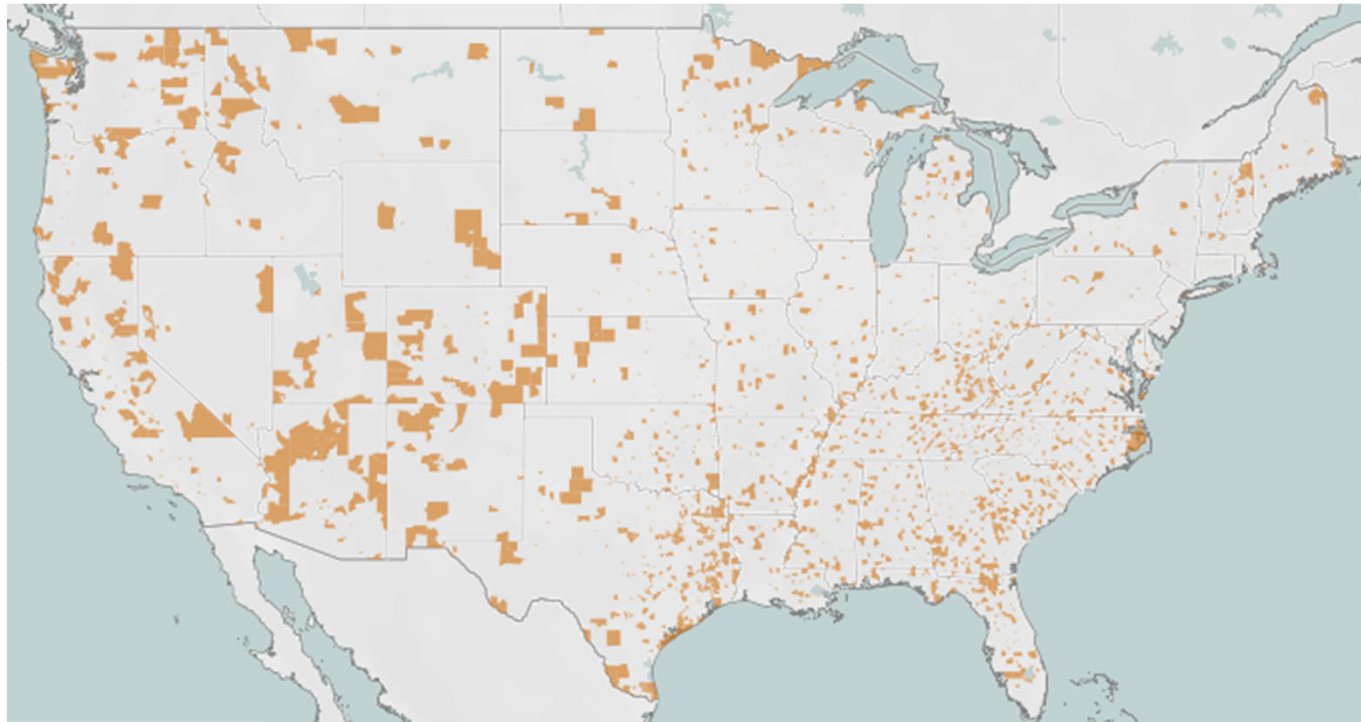


Setting the Stage

Where do Opportunity Zones exist?



8,764 Opportunity
Zones



Source: <https://www.enterprisecommunity.org/opportunity360/opportunity-zone-eligibility-tool>



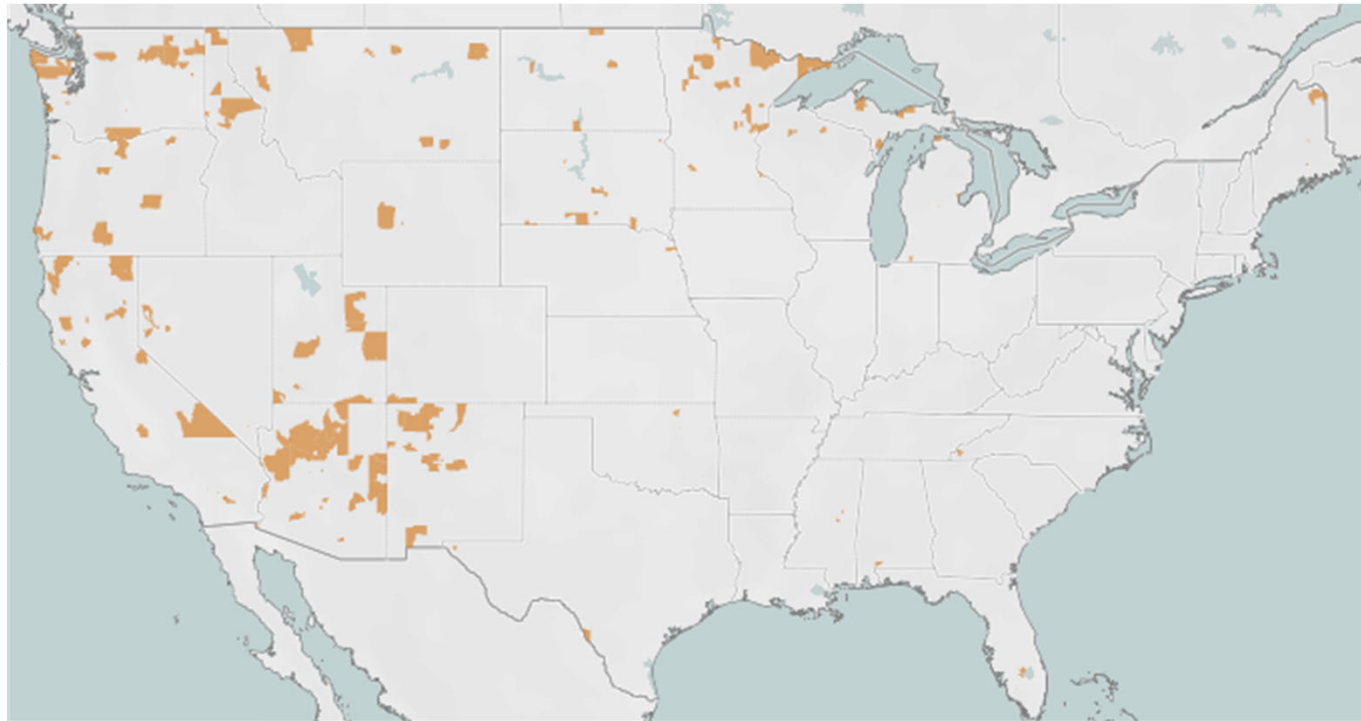
Setting the Stage

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

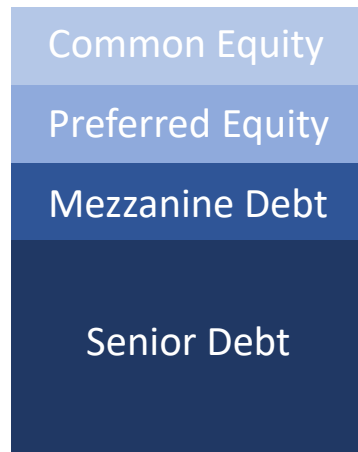
- How Tribes can ready themselves for Low-Income Housing and New Markets Tax Credits
 - Review State Qualified Action Plan (LIHTC)
 - Opportunities for partnerships:
 - Developers with IHTC experience with LIHTC and NMTC
 - CDFIs with a NMTC allocation from Treasury
 - Tribal community potential roles: 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



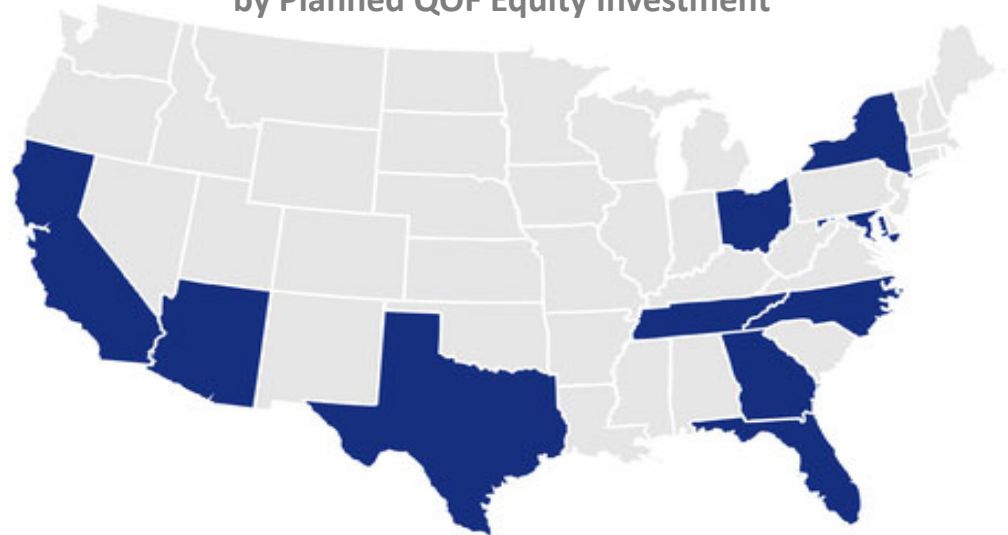
Qualified Opportunity Funds

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



Investment States/ Territories	# of Identified Investments to Date	Total Equity Raised	% of Total Equity Raised
California	26 and above	\$1,191,400,000	15.9%
New York	16 - 20	\$820,690,000	10.9%
Ohio	26 and above	\$601,240,000	8.0%
Arizona	26 and above	\$535,760,000	7.1%
Georgia	21 - 25	\$357,900,000	4.8%
Texas	21 - 25	\$343,320,000	4.6%
Maryland	16 - 20	\$327,810,000	4.4%
Florida	16 - 20	\$297,540,000	4.0%
North Carolina	16 - 20	\$252,050,000	3.4%
Tennessee	11 - 15	\$251,270,000	3.3%

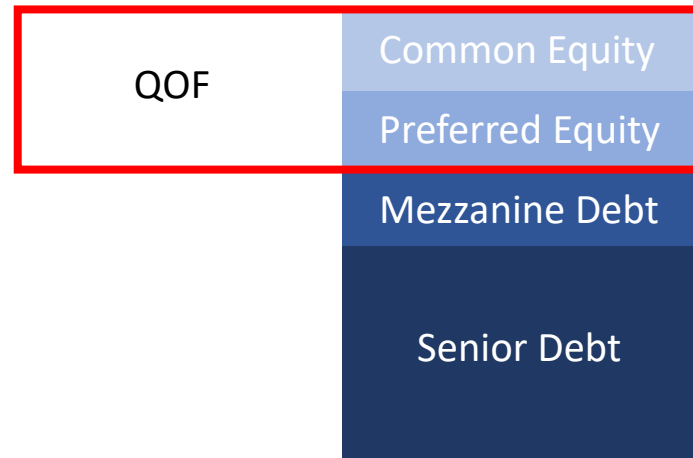
Source: Novogradac (*Map as of April 12, 2020 / ** As of September 1, 2020)



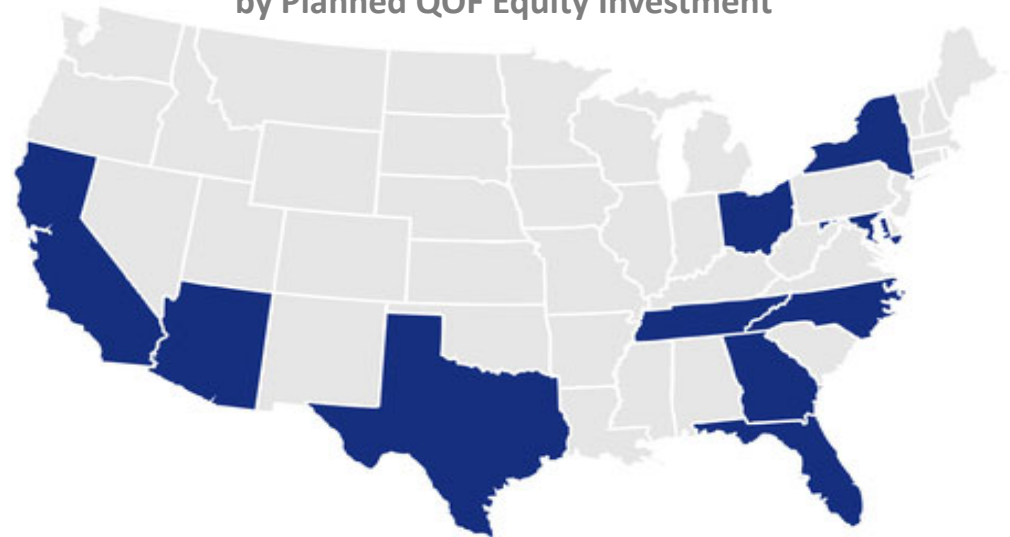
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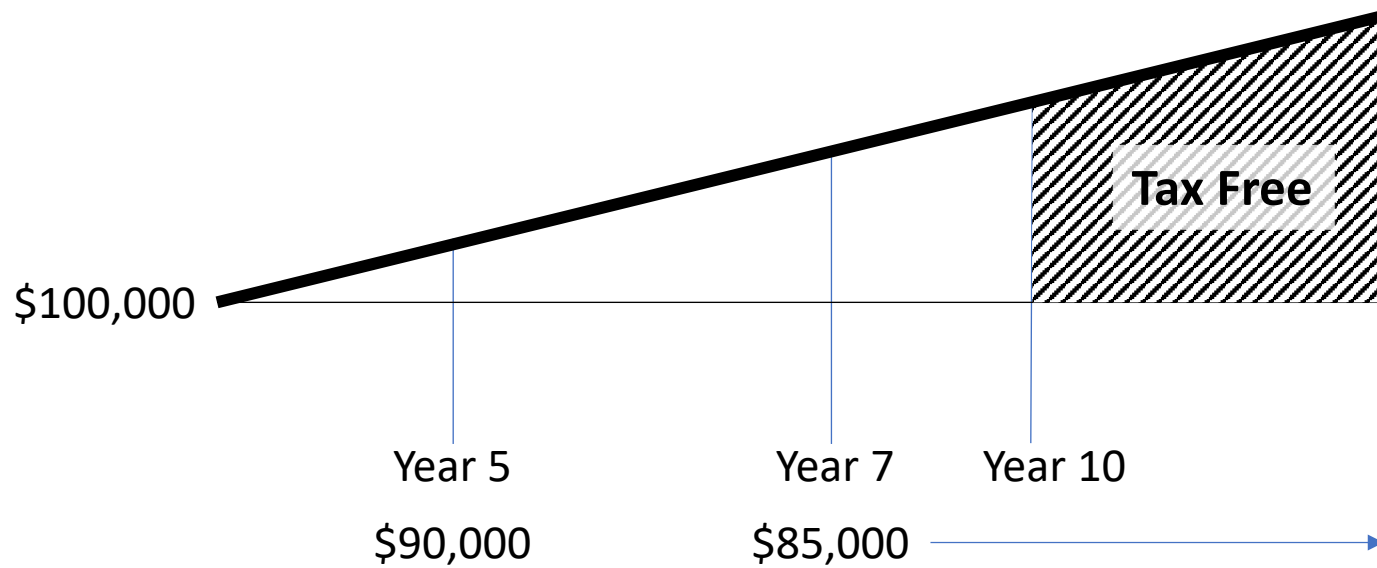


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Qualified Opportunity Funds



- 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.

Novogradac Opportunity Funds Listings Totals

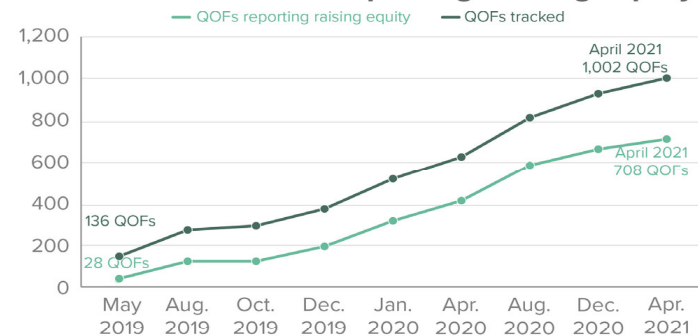
As of April 13, 2021

FUNDS RAISED BY QOFS REPORTING EQUITY	QOFS REPORTING EQUITY RAISED	TOTAL QOFS
\$16.34 billion	708	1,002

Reported Equity Raised



QOFS Tracked and Reporting Raising Equity



As of April 14, 2021, the 1,002 QOFS had a fundraising goal of \$82.20 billion and the 708 QOFS that report a specific equity amount had a fundraising goal of \$39.52 billion.

*As of April 12, 2021 (Novogradac)

Source: Novogradac

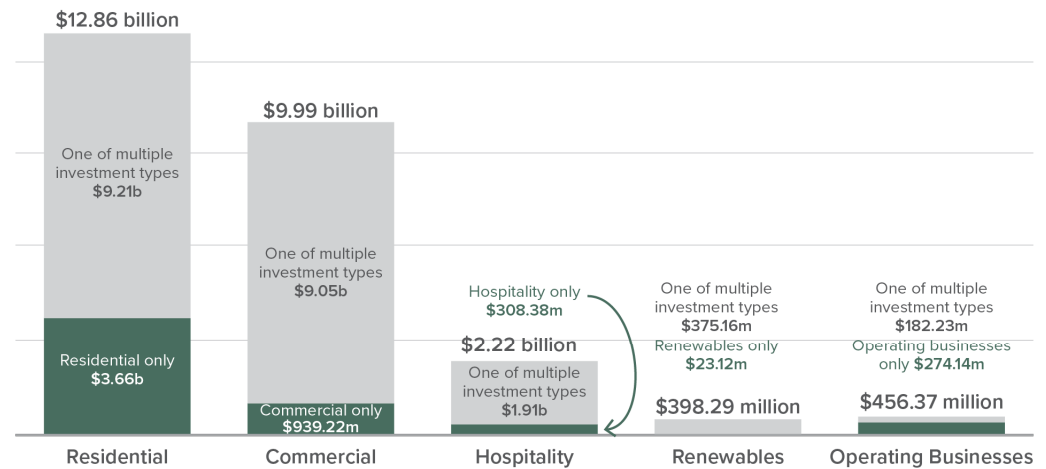


Qualified Opportunity Funds

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.

Residential, Commercial Still Top Investments



Source: Novogradac



*As of April 12, 2021 (Novogradac)



Qualified Opportunity Funds - Example

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

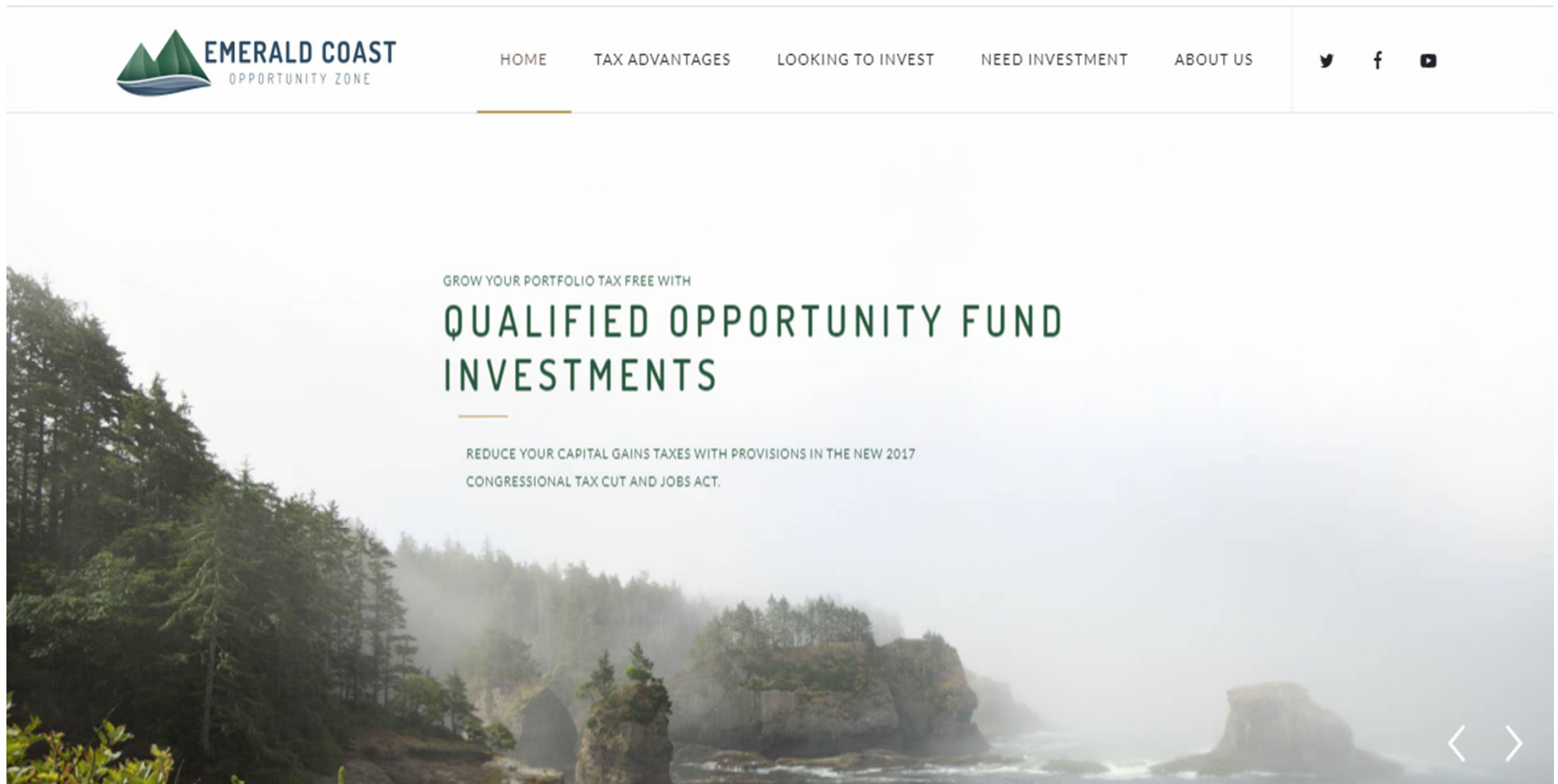
- An LLC that chooses to be treated either as a partnership or corporation for federal income tax purposes and is organized for the purpose of investing in Qualified Opportunity Zone property can be a QOF.
- To become a QOF, an eligible corporation or partnership self-certifies by annually filing Form 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/>



Qualified Opportunity Funds

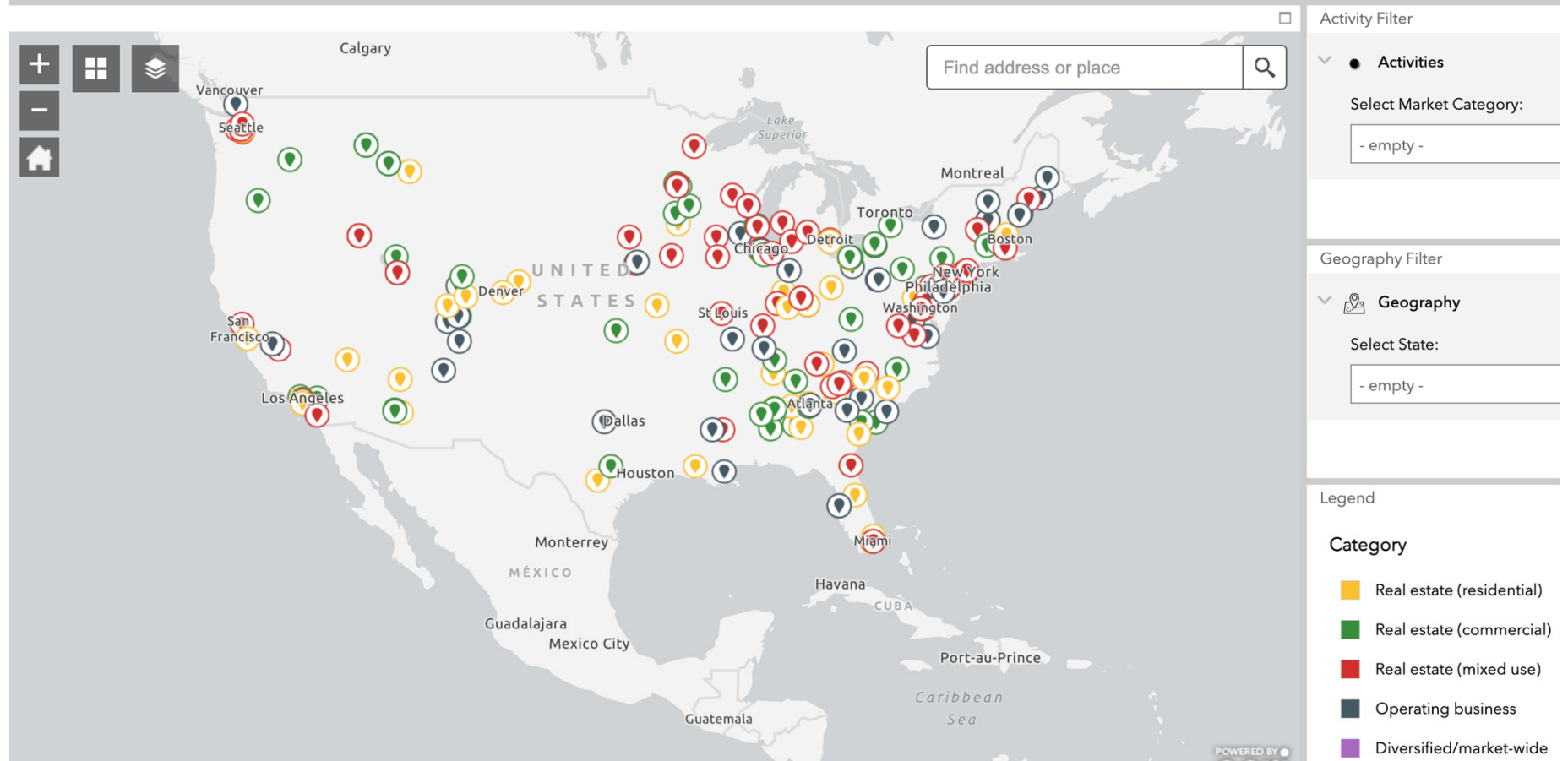
How to find a QOF?

- Novogradac Opportunity Fund List
<https://www.novoco.com/resource-centers/opportunity-zone-resource-center/opportunity-funds-listing>
- 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

EIG Opportunity Zones Activity Map

[Introduction](#)[All Activities Map](#)[Investments Map](#)[Funds Map](#)[Initiatives Map](#)[How to Use the Map](#)[Deal Profiles](#)[More Info](#)

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>



Partnering Communities

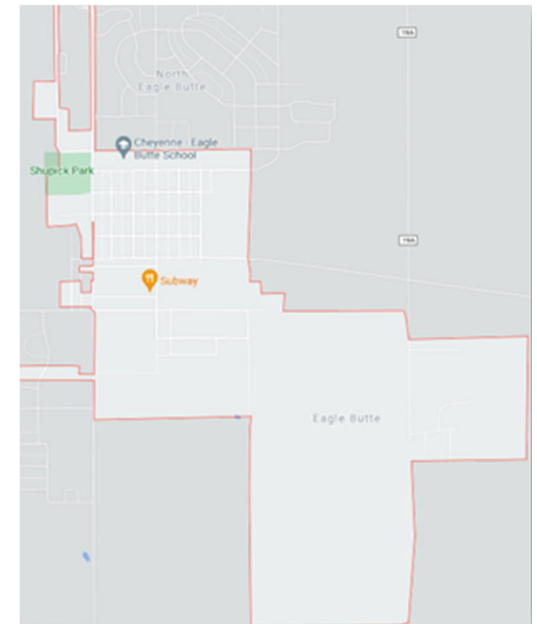
- **Project Description: Santa Clara Pueblo, Española, NM**
 - Mixed-use development on 48-acres
 - To be executed in four phases, totaling ~180 homes.
 - Partnership between Tribe and Public Housing Authority
 - Early focus had been on infrastructure needs and overall project financing
 - Existing capacity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



Partnering Communities – Cheyenne River Housing Authority

Project Description: **Wakpamni 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=BCqO9Bmb-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
<https://www.novoco.com/resource-centers/opportunity-zone-resource-center/opportunity-funds-listing>
- 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
https://www.bia.gov/sites/bia.gov/files/assets/as-ia/ieed/ieed/pdf/Opportunity_Zones_Primer.pdf
- Opportunity Zone Toolkit Volume 1 – HUD
https://opportunityzones.hud.gov/sites/opportunityzones.hud.gov/files/documents/Opportunity_Zones_Toolkit_Roadmap_FINAL_Edited_092319.pdf?utm_content=&utm_medium=email&utm_name=&utm_source=govdelivery&utm_term=
- Economic Innovation Group Opportunity Zones Activity Map
<https://eig.org/oz-activity-map>
- Leveraging Development Finance Tools to Attract Opportunity Zone Investment
https://www.cclr.org/sites/default/files/TASC_TO68OEJ_OCR_%20Development_Finance_Tools%20Guide_508.pdf



Questions?

*For additional questions,
contact: codetalk@hud.gov*





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THANK YOU for joining