

Durham County

Understanding Opportunity Zones and the Role of Local Government

Agenda

- DFI @ UNC School of Government
- Opportunity Zone Fundamentals
- What is an "investment-ready" project?
- The Role of Local Government

UNC School of Government

- Largest university-based local government training, advisory, and research organization in the U.S.
- Serves 12,000+ public officials each year through courses, webinars, and specialized conferences, publications, calls, and emails.
- Values: Nonpartisan, policy-neutral, responsive.
- “In the bloodstream” of state and local government.



Development Finance Initiative

The Development Finance Initiative (DFI) is a program of UNC Chapel Hill's School of Government and collaborates with communities in NC to attract private investment for transformative projects by providing specialized finance and real estate development expertise.



Expertise:

- Real estate development
- Architecture
- Public and private finance
- Public-Private Partnerships (P3)
- Public development law
- Community engagement
- Land use & market analysis

DFI Projects

End of 2017

132 Projects since 2011

Over 30 class projects at
no charge

Size of Community

>50,000 23

<50,000 26

<20,000 51

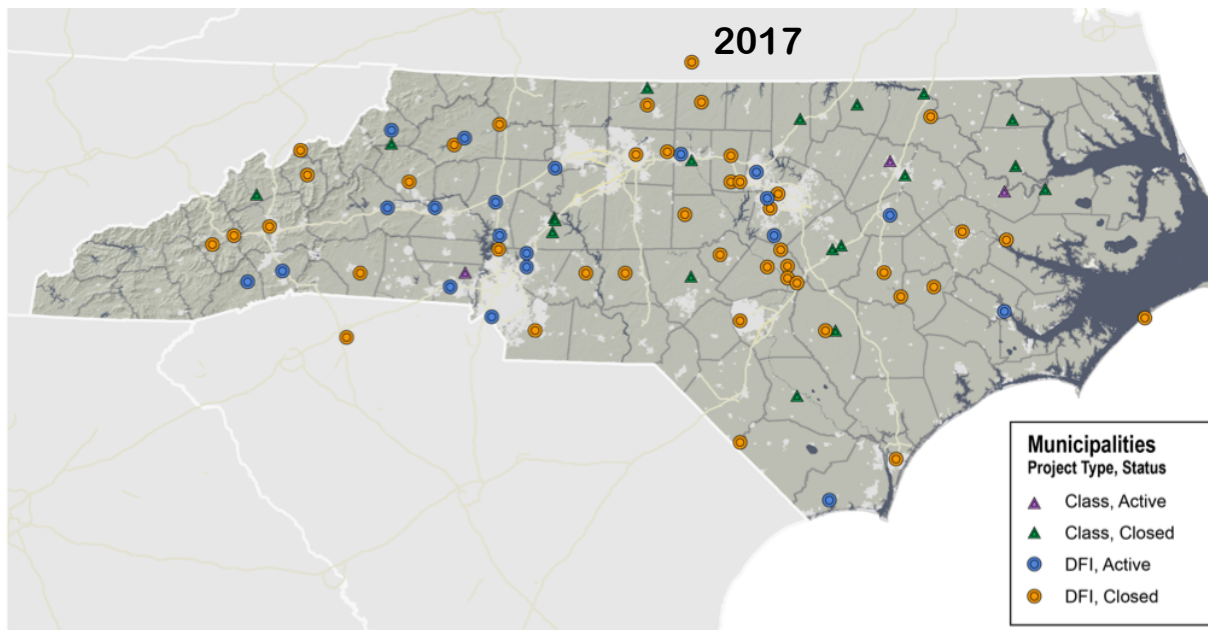
<2,500 18

Economic Development Tier

Tier 1 33

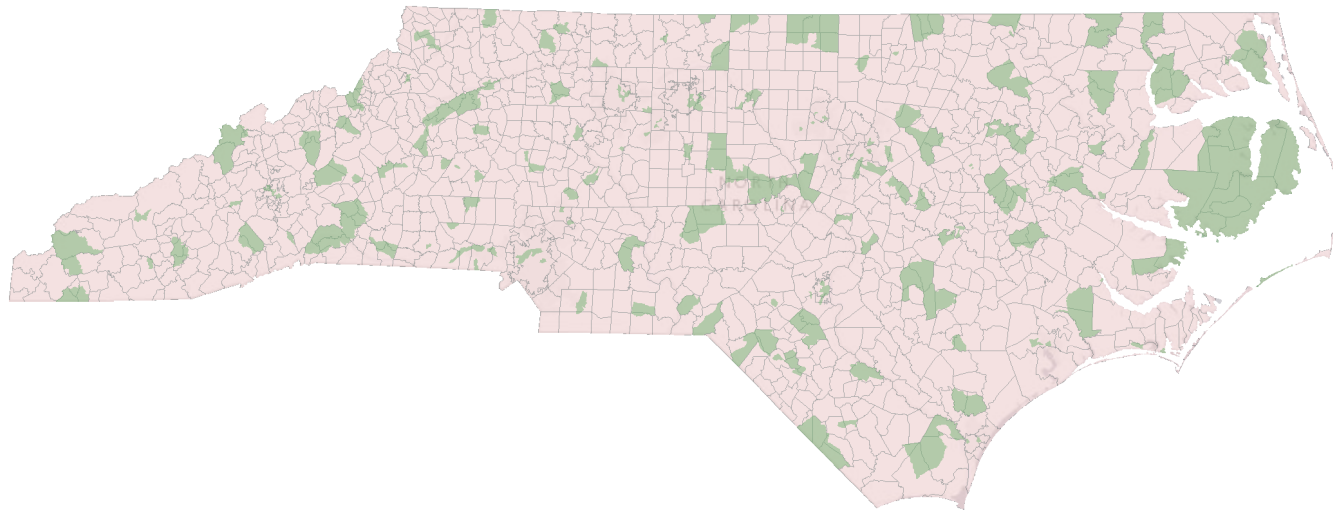
Tier 2 45

Tier 3 40



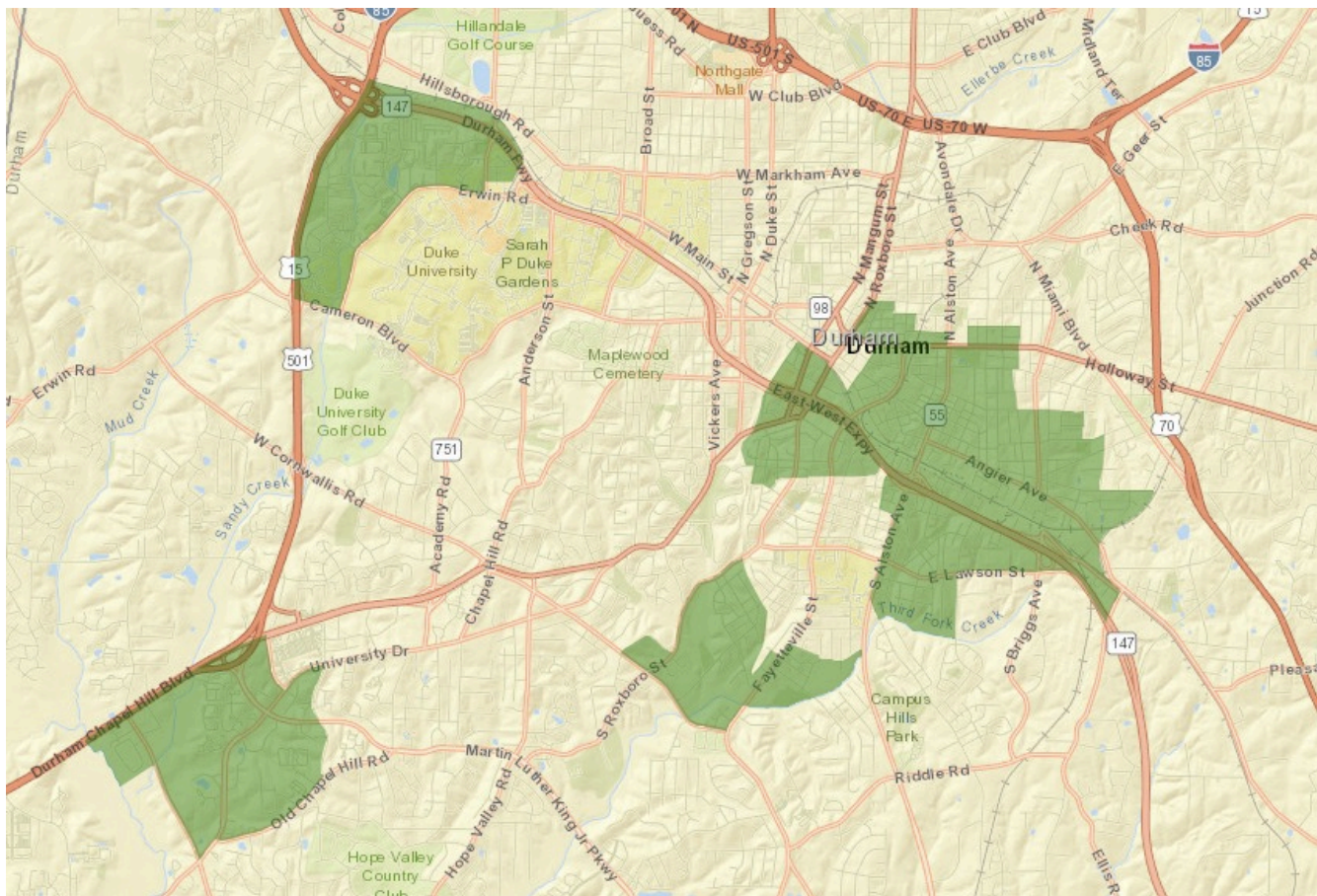
NC Opportunity Zones

Counties with the most OZs	
Mecklenburg	17
Wake	13
Guilford	12
Forsyth	11
Cumberland	9
Gaston	9
Robeson	7
Durham	7
Rowan	5
Pitt	5
Edgecombe	5
Buncombe	5



- NC Opportunity Zones: 252
- US Opportunity Zones: 8,700 (12% of US census tracts)

Durham County OZs



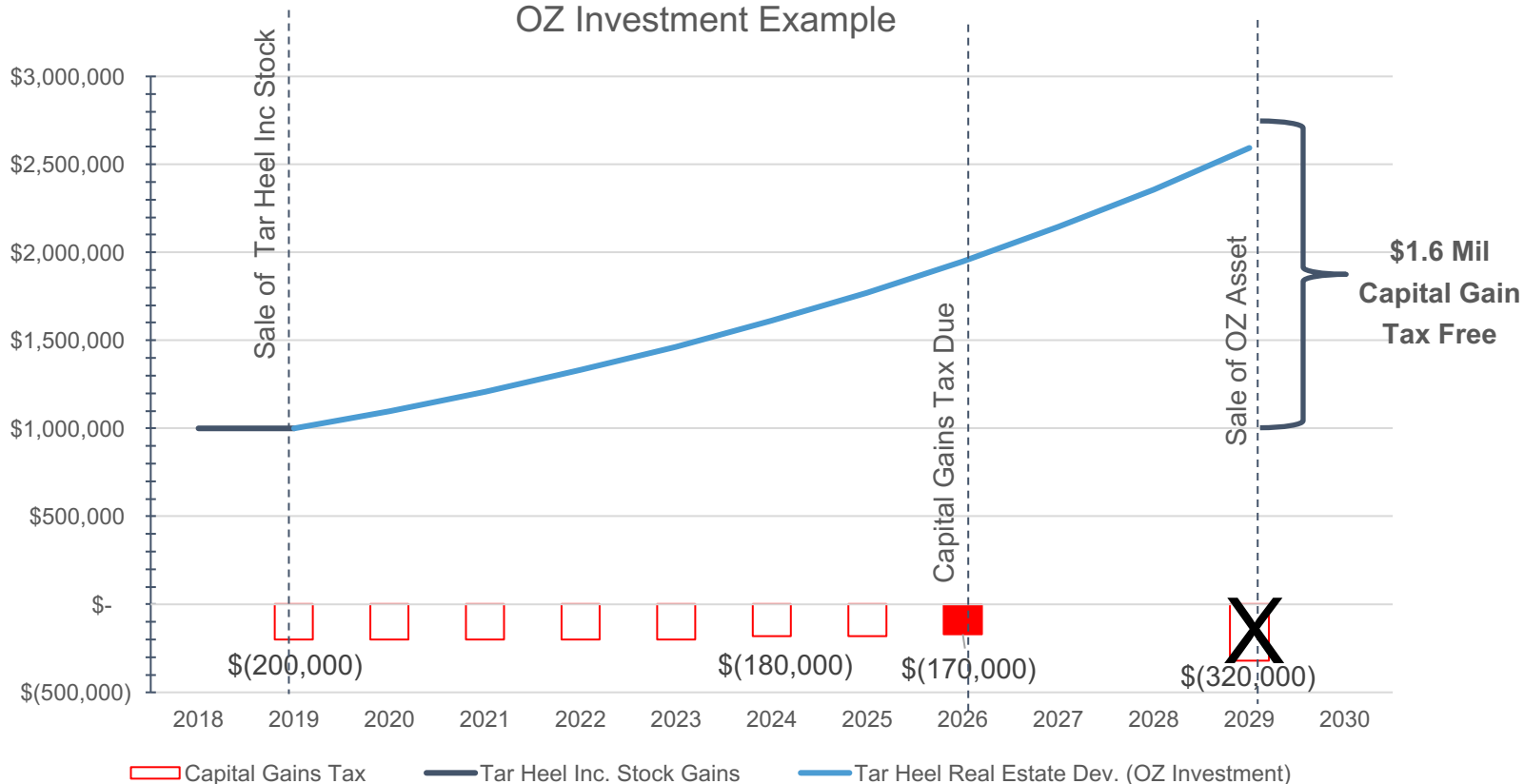
Overview

- Created by 2017 tax bill
- Allows deferral and reduction of federal capital gains tax liability on reinvestment of gains in OZs (into “new” businesses, real estate, etc.)
- States have designated 25% of Low-Income Communities* as Opportunity Zones



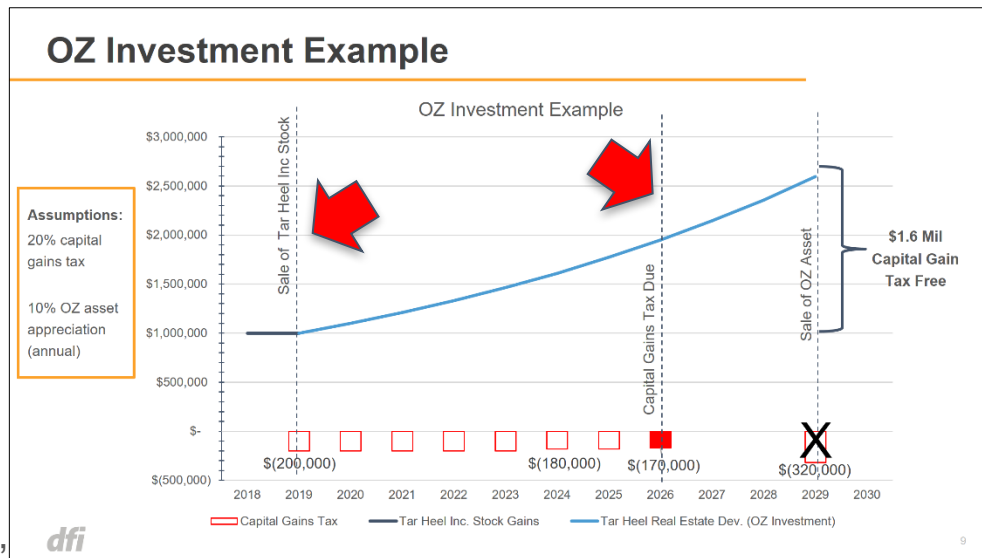
10-Year Hold: Advantage for Real Estate

OZ Investment Example



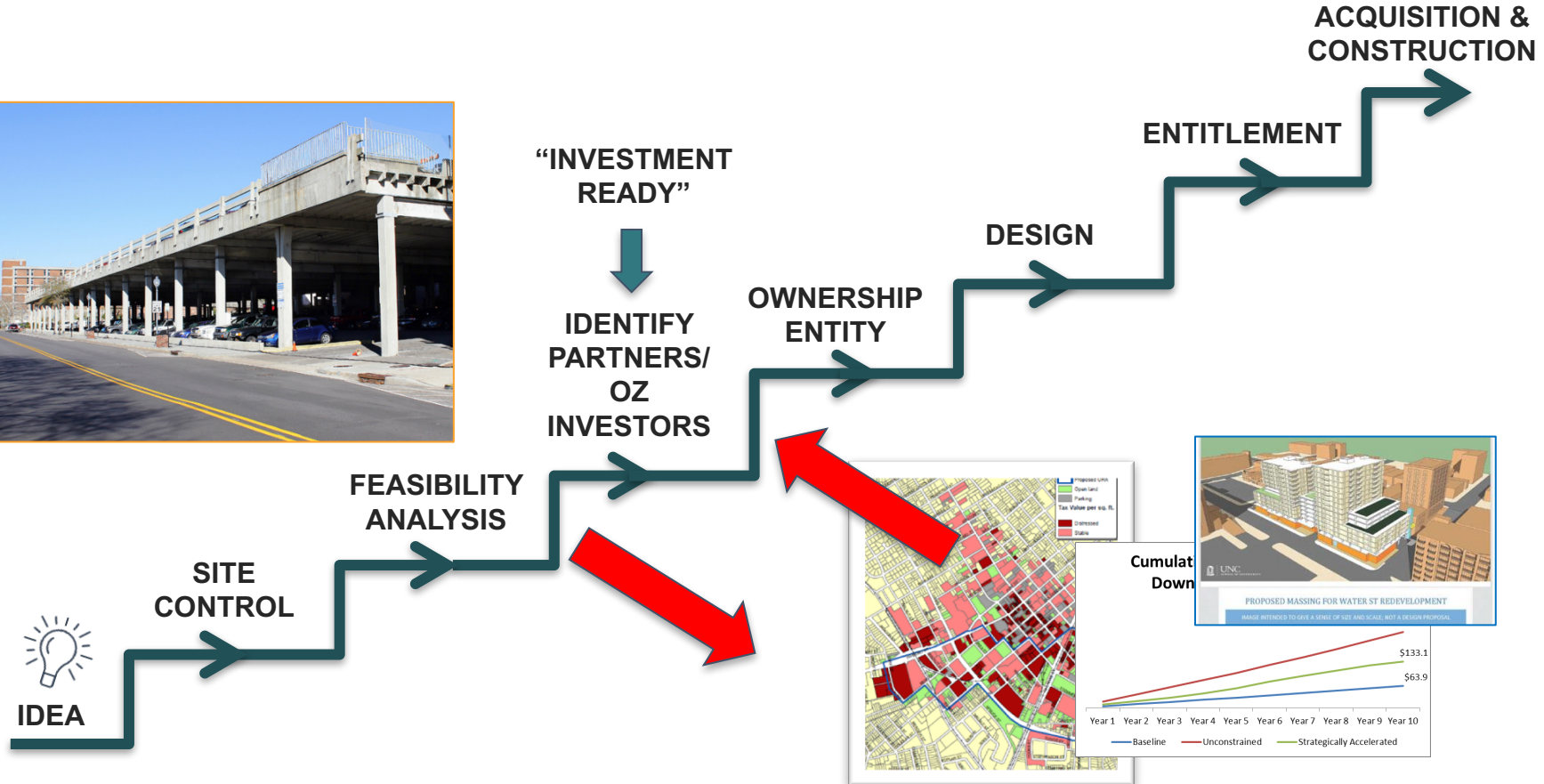
Why “Investment Ready” Is Important

- OZ designation is not a strategy
 - Capital flows to “ready” projects
 - Best practice for P3 (OZ or not)
- OZ timing
 - Max benefits if invest by 2019
 - Short period to invest cap gains in OZ
 - Investor has 180 days to invest in “Opportunity Fund”
 - **No outside “fund” is required;** developer or investor can simply “self-certify” as “Opportunity Fund”
 - “Opportunity Fund” must hold OZ property for semi-annual 90% test

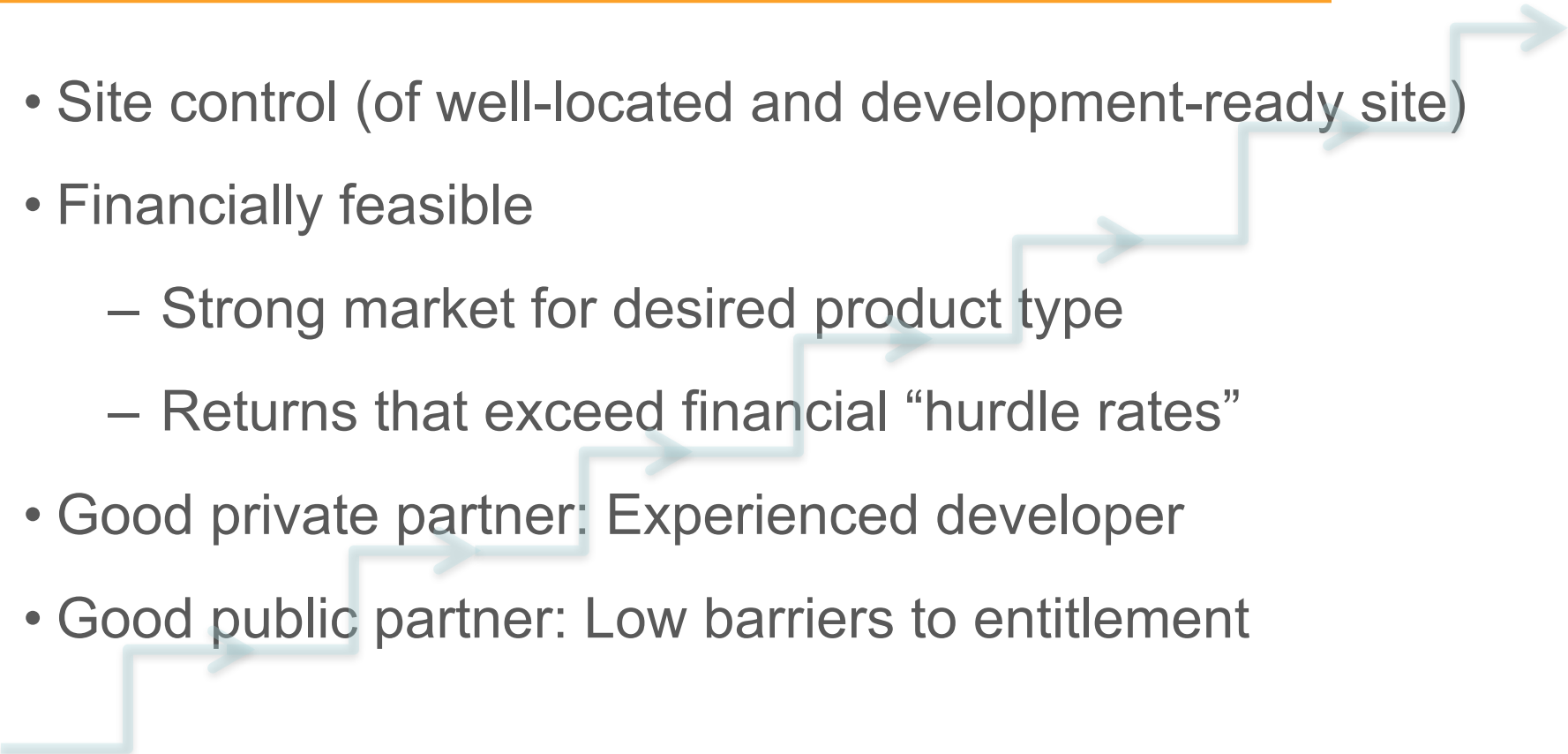


What is an “investment-ready” project?

Private Real Estate Development Process



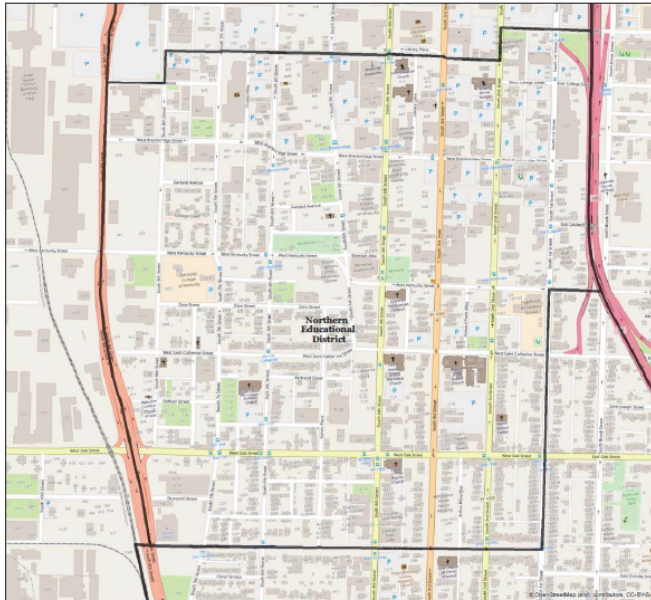
What is an investment-ready project?

- Site control (of well-located and development-ready site)
 - Financially feasible
 - Strong market for desired product type
 - Returns that exceed financial “hurdle rates”
 - Good private partner: Experienced developer
 - Good public partner: Low barriers to entitlement
- 

An investor opens a prospectus...

NORTHERN EDUCATION DISTRICT

Multi-university district walking distance to downtown



ZONE TYPOLOGY TYPE*
Tier 2 Job Center & Mixed
Job/Residential

OPPORTUNITY ZONE JOBS

2015: 3,423
2010: 3,399
+1% change

TOP 3 INDUSTRIES

1. Health Care and Social Assistance (24%)
2. Educational Services (16%)
3. Professional, Scientific & Technical Services (12%)

OPPORTUNITY ZONE RESIDENTS

2016: 4,941
2010: 4,848
+2% change

VACANT RESIDENTIAL PROPERTIES

Q42017: 253 (7%)

VACANT BUSINESS PROPERTIES

Q42017: 61 (11%)



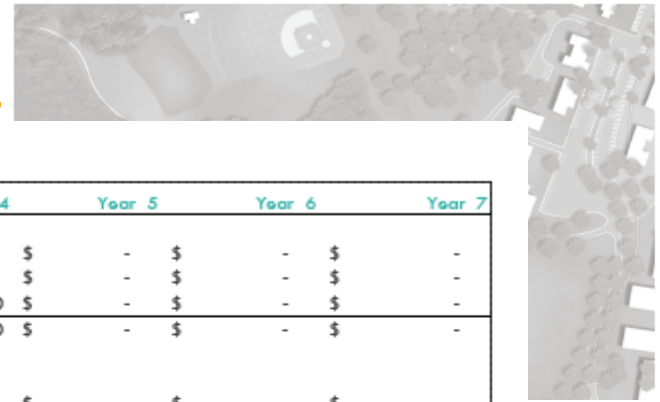
The Assets

- Expanding university district, distinct from the University
- Spalding University—focusing largely on in-demand healthcare and business fields.
- \$24 million Jefferson Technical & Community College Advanced Manufacturing and Information Technology building.
- Simmons College—Louisville's rapidly growing HBCU.

The Opportunity

- Invest in business start-ups aligned with research and entrepreneurship of each university.

...and another prospectus



TOTAL PROJECT RETURNS

Project Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Residential							
Equity Contributed	\$ (4,140,551)	\$ (909,400)	\$ -	\$ -	\$ -	\$ -	\$ -
Before Tax Cash Flow from Sale - Townhomes	\$ -	\$ -	\$ 4,346,367	\$ -	\$ -	\$ -	\$ -
Before Tax Cash Flow from Sale - Single-Family	\$ -	\$ -	\$ 1,007,200	\$ 2,900,700	\$ -	\$ -	\$ -
Total Cash Flows	\$ (4,140,551)	\$ (909,400)	\$ 5,353,567	\$ 2,900,700	\$ -	\$ -	\$ -
Commercial							
Equity Contributed	\$ (2,602,546)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Before Tax Cash Flow from Operations	\$ -	\$ 103,459	\$ 202,961	\$ 135,403	\$ 147,671	\$ 171,007	\$ 195,043
Before Tax Cash Flow from Sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,843,901
Total Cash Flows	\$ (2,602,546)	\$ 103,459	\$ 202,961	\$ 135,403	\$ 147,671	\$ 171,007	\$ 3,038,943
Master Development Cash Flows	\$ (6,743,097)	\$ (805,940)	\$ 5,556,528	\$ 3,036,103	\$ 147,671	\$ 171,007	\$ 3,038,943

IRR	16%
Equity Multiple	1.6x

Development Budget			
	Percent	Per GSF	Total
Acquisition	4%	\$ 12	\$ 555,750
Hard Costs & Contingency	79%	\$ 235	\$ 10,642,461
Soft Costs	17%	\$ 51	\$ 2,296,616
Total Development Costs		\$ 298	\$ 13,494,826
Permanent Capital Sources			
	Percent	Per GSF	Total
Historic Tax Credit Equity	24%	\$ 72	\$ 3,256,572
Primary Loan	52%	\$ 156	\$ 7,079,958
Seller Note	4%	\$ 12	\$ 555,750
Equity	19%	\$ 57	\$ 2,602,546
Total Sources		\$ 298	\$ 13,494,826

Commercial Operating Cash Flow				
	Year 1	Year 2	Year 3	Year 4
Gross Revenues (NNN)	\$ 815,400	\$ 839,862	\$ 865,058	\$ 891,010
Vacancy (%)	18	19	19	20
Vacancy (\$)	\$ (335,250)	\$ (83,986)	\$ (86,506)	\$ (89,101)
Gross Effective Income	\$ 480,150	\$ 755,876	\$ 778,552	\$ 801,909
Operating Expenses	\$ 14,405	\$ 22,676	\$ 23,357	\$ 24,057
NOI	\$ 465,746	\$ 733,200	\$ 755,196	\$ 777,851
NOI Valuation	\$5,821,819	\$9,164,994	\$9,439,944	\$9,723,142
Total Ownership Expenses	\$ (465,746)	\$ (530,239)	\$ (619,793)	\$ (630,180)
Before Tax Cash Flow with Reserve	\$ 103,459	\$ 202,961	\$ 135,403	\$ 147,671

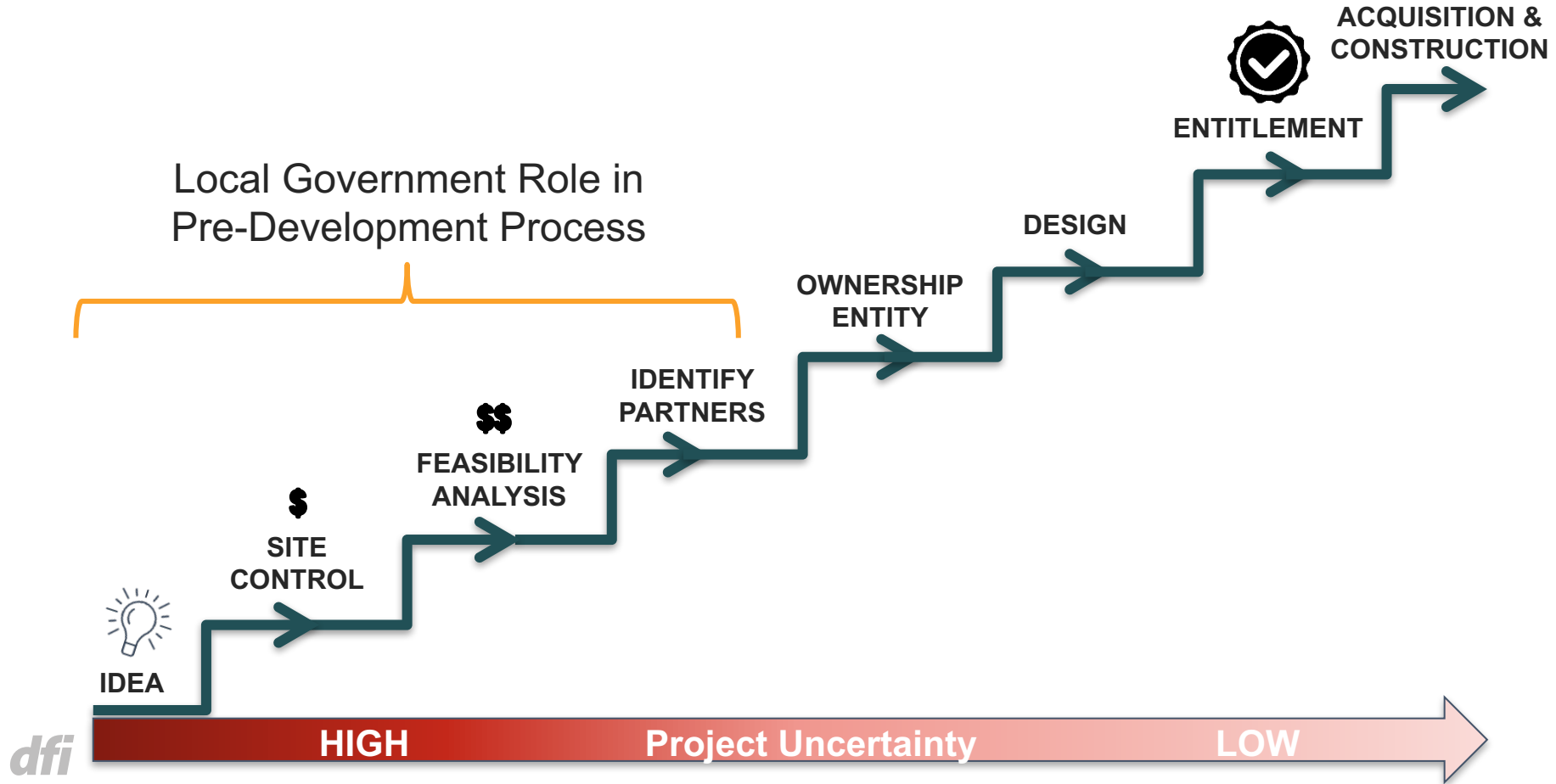
the income
in 2017 and
t segment of
holds earning
\$300,000 or
earning
10,000

The Role of Local Governments

How Can Local Governments Be Proactive?

- Send market signals by preparing the area for private investment
 - Conduct local and regional planning
 - Invest in public infrastructure
 - Invest in streetscape improvements
 - Reduce blight, code enforcement, remediation
- Send market signals by making appropriate district designations
 - URA (Urban Redevelopment Area), MSD (Municipal Service District), Historic Districts, Special Assessment District
- Identify and promote investment-ready projects
- **Prepare investment-ready projects**

Gov't Role in Private Real Estate Development Process



Summary

- Opportunity Zone designation, by itself, is not a strategy
- Governments can proactively complete steps in the private real estate development process to make important projects “investment ready” (inside or outside of OZs)
- Best practices for real estate development are best practices for Opportunity Zones.

