# Opportunity Zones Knocking, But Few Answering the Call So Far.

- **Lack of Treasury rules, vetting of funds are slowing buy-ins**
- **GOP law offers tax-free gains and seven-year break on projects**

Investors eyeing President Donald Trump's Opportunity Zones face a ticking clock if they want to fully capture one of the biggest tax breaks in decades.

But few so far seem ready to make the leap.

Tucked into the 2017 tax overhaul, Opportunity Zones let investors reduce and postpone taxes on profits from stocks, businesses and investment partnerships provided the money is reinvested in one of more than 8,700 low-income communities across America. Investors can also avoid tax on future profits from those investments, on which they must make "substantial improvements."

To reap the entire tax bounty, investors have to buy into eligible projects by the end of this year. For investors wanting to fully use the benefit to shelter last year's profits from hedge funds and other partnerships, the deadline is even sooner — June 29.

The breaks are meant to steer money to parts of the country that have long been starved for capital, creating jobs and economic growth. Critics have said that some zones — like downtown Portland, Oregon and the section of Long Island City, Queens, that was to be home to Amazon.com Inc.'s second headquarters — would have no trouble attracting investors.

The tax opportunity has created a frenzy among private client groups at banks and law, accounting and real estate firms, which in recent months have pumped out scores of white papers and client alerts extolling their tax benefit. An Internal Revenue Service hearing on the benefit in February had lines out the door, something tax experts say is unheard of, and JPMorgan Chase and Co. said that 2,000 clients had tuned in to a recent webinar it held.

"There is a huge amount of interest," said Kathy Rosa, the global head of alternative investments for J.P. Morgan Private Bank.

But despite a feverish push from developers, accountants and law firms, investors are hesitating before jumping into Opportunity Zone funds, according to wealth advisers.

Some are awaiting more guidance from the Treasury Department, which is expected to release rules this month, while others are heeding caution that some funds are riskier bets or aren't yet up and running.

Devin Redmond, a 41-year-old property investor, said he had decided not to put $400,000 in capital gains from selling his San Francisco condo this year into an Opportunity Zone fund. "You have to have a really compelling investment," he said, citing uncertainty over what a fund would actually invest in and the long, 10-year lock up period for tax-free returns.

“The clock is ticking on this opportunity,” said Jeffrey MacDonald, the head of fixed income strategies at Fiduciary Trust Company International, a wealth planning firm that manages $77 billion in client assets.

But MacDonald also acknowledged that there wasn’t “much time” for “extra due diligence” on the Opportunity Zone funds, and he hasn’t put any clients into the funds yet.

Nina Streeter, a director of asset management at Abbot Downing, said that “it’s quite clear to me that the amount of capital closed so far is small.”

“To date, most of the opportunities would not be appropriate investment strategies for our clients,” said Justina Lai, the director of impact investing and a shareholder of Wetherby Asset Management, which manages around $4.5 billion.

Treasury Secretary Steven Mnuchin predicted the tax incentive for Opportunity Zones could take in $100 billion of investments a year. CoStar Realty Information Inc., a real estate data firm, says it’s tracking more than 258 funds. But OpportunityDB, a database for Opportunity Zones, saw only 88 funds seeking to raise a total $26.4 billion as of April 1.

The single largest is commercial real estate firm CIM Group’s $5 billion fund, followed by hedge fund firm Skybridge Capital with $3 billion and property developer Decennial Group with $1 billion. Separately, Wall Street banks are hoping to put their wealthy private clients into funds.

It’s unknown how many property funds have so-called shovel-ready projects – key if they’re to meet criteria governing how soon they must be up and running after taking in investors’ money. And most funds are focused on investing in a single piece of property, according to a note by JPMorgan Chase last December -– riskier than diversifying across different properties and regions.

“There’s almost this irrational exuberance on the tax side,” said Lisa Featherngill, the head of legacy and wealth planning at Abbot Downing, part of Wells Fargo Inc. “Not many people are aware of the need to actually look at the investment.”

One of the biggest risks is if the fund becomes disqualified so that the investor no longer is entitled to the tax break. For example, some funds are focused on newly constructed buildings that haven’t been issued certificates of occupancy -– a requirement of the provision.

“The last thing you want early is a blow-up in the fund’s life that would trip it out of compliance and cause capital gains to be recognized much sooner,” Streeter said.

Steve Glickman, who helped draft the provision for tax-writers through the Economic Innovation Group, a bipartisan research and policy organization, and now runs Develop LLC, an advisory firm devoted to the program, called it “the largest capital gains incentive in a generation.”

Yet timing is crucial, hence advisers’ anxiety. Investors get a reduction in postponed taxes – 10 percent if they hold on to their new investments for five years, and an additional 5 percent for another two years. But to capture that extra 5 percent before the postponed tax bill comes due at the end of 2026, investors have to get in by Dec. 31.

Investors have to put their profits from other investments into qualified funds within 180 days of realizing them. That means a stock investor who wants the full tax benefit can roll in her gains if they’re realized by Dec. 31.

But for investors in hedge funds and other partnerships seeking to shelter previous gains, the deadline is June 29 because the taxable year for those investments typically ends on Dec. 31.

Another risk, say wealth advisers, is that people might invest too much in the fund and not set aside enough cash to pay their postponed taxes in a lump sum. Advisers say they're also working to get some clients, with concerns like those of Redmond, comfortable with their investment being locked up for 10 years before it's tax-free.

Other unanswered questions in the provision include how the provision works for companies whose economic activity – online sales, for example – fall outside their physical location in a qualified zone. Rosa said it's also not clear how investors could refinance their projects while remaining in compliance with the provision.

The Treasury Department is expected to issue a second round of regulations governing the provision sometime this month, fleshing out a first round last October. Treasury spokeswoman Tricia McLaughlin declined to comment.

MacDonald said he was worried that new rules issued this far into the process would be "like changing the tire on a moving bus." Still, he added, there was "fear-of-missing-out-pressure" because, he insists, the program is "the opportunity of a lifetime."

**Bloomberg Politics**

By Lynnley Browning

April 10, 2019, 1:00 AM PDT