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[Who’s Knocking? Investors Rush to Set Up Opportunity Zone Funds Ahead of Deadline.]

Firms like Fundrise and Youngwoo & Associates have launched $500 million funds, hoping to take full advantage of generous tax incentives for building in distressed neighborhoods

Investment firms are scrambling to cash in on the federal Opportunity Zones plan, hoping to take full advantage of the generous tax incentive program ahead of a looming deadline.

Enacted late last year, the program provides tax deferments and tax breaks to developers and investors who build projects in designated low-income neighborhoods across the country.

Already, a handful of firms have launched $500 million so-called opportunity funds — others have targeted far smaller amounts — putting them in position to invest in the 8,700 federally-approved Opportunity Zones nationwide. Among them are Fundrise, EJF Capital and a joint venture of Youngwoo & Associates and EquityMultiple that each recently announced their plans. RXR Realty is also reported to be in talks to set up a fund.

Part of the federal tax overhaul plan, Opportunity Zones award investors increasing discounts on capital gains — or taxes resulting from the sale of certain assets — the longer the asset is held in the designated zones. Investors who hold a property for at least five years in an Opportunity Zone receive a 10 percent break; those who hold it for seven years receive 15 percent. As a separate benefit, an investor can forgo paying capital gains taxes on the appreciation of an investment in Opportunity Zones if the asset is held for at least 10 years.

But the window is closing for investors who want to take full advantage of the 15 percent concession. That’s because the capital gains deferment ends on Dec. 31, 2026. So, investors have until Dec. 31, 2019, if they want to reap the benefits of the entire seven-year tax break.

With just over a year to raise money, find a project, draft the documents and pour in the capital, investment firms are now in Opportunity Zone overdrive. But more than nine months after it began, the program is still short on specifics.

The rules in the initial legislation allow almost any property — with a few exceptions — to qualify as long as it is in an Opportunity Zones. But this has left many unanswered questions. For instance, would a developer qualify for the program if he were to refinance a property in an Opportunity Zone? Or would leasing a business meet the parameters of an opportunity fund? Also, would projects that have already broken ground count?

The Treasury Department and the IRS are expected to provide more details in the coming weeks, but without clear guidance so far, real estate investors have turned to their own circles for advice.

Invest late, you’re “toast”

Mark Edelstein, chairman of Morrison Foerster’s global real estate group, said the law firm’s clients have been seeking guidance the Opportunity Zones program.

“Real estate people know it takes time to do deals,” said Edelstein, speaking last week at a real estate seminar the firm held in its Midtown Manhattan office. “If they start [an opportunity fund] in July of 2019, they are toast. They won’t have time to draft the document and get the entity.”

Bryan Woo, executive vice president of Youngwoo & Associates, said there remain many unknowns. “Without guidance from the IRS, no one knows what to do,” he said. But that hasn’t stopped him.

Last month, the firm announced plans for a $500 million nationwide opportunity fund in a partnership with real estate investment startup EquityMultiple. Woo said the December 2019 deadline had prompted the fund’s launch. The fund will possibly target developments in New York, Oakland, Seattle, Detroit, Los Angeles and Portland, Oregon.

“Based on the spirit of the bill, I think it is a tremendous opportunity,” said Woo, who recently attended a conference in New Orleans that covered the recent movement around Opportunity Zone funds. “Naturally there are a lot of people running around in the past month.”

Local developers are also diving in. Avra Jain, a former Wall Street bond trader who is now a developer in Miami, said her firm is looking to set up site specific opportunity funds. This includes a $2 million to $3 million fund she closed for a 95,000-square-foot flex warehouse development site at 1010 Northwest 72nd Street in Miami.

“Everybody is still waiting on clarification from the Treasury on some important policies.” Jain said. “We want clarification before we do something in a bigger way.”

But some major players are taking a wait-and-see approach.

RXR Realty is weighing whether to launch a fund, but will hold off until regulators provide that detail. Mike Maturo, chief financial officer, said the company is under less pressure ahead of the 2019 deadline because it already has $1 billion of pipeline inventory located in designated Opportunity Zones. The firm, he said, will look to take advantage.

“It makes a lot of sense for us to participate in this program,” he said. “If guidelines are finalized, we will move very quickly.”

The Real Deal

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