

NEW YORK BROWNFIELDS & FEDERAL OPPORTUNITY ZONES

Prepared for:



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Opportunity Zones >>>> BCP

- Monumental shift going on right now!!!
- National impact on Real Estate investment
- Will dwarf the money invested into BCP and NYCVCP sites
- Many Developers busy setting up \$500M+ Opportunity Zone Funds

Opportunity Zones

- ⦿ Economic Development tool designed to spur redevelopment and job creation in distressed communities
- ⦿ Created by Tax Cuts and Jobs Act on December 22, 2017
- ⦿ Works by providing tax benefit to investors
 - Defer Capital Gains tax on prior gains and eliminate tax on appreciation by investing in Opportunity Zone Funds
 - Opportunity Zone Funds invest in redevelopment projects in low-income designated Opportunity Zones

Opportunity Zones - Defined

- ⦿ A census tract designated by each state or territory certified by Treasury as eligible to receive private investments via Qualified Opportunity Funds
- ⦿ Meets definition of a “low-income community” (LIC)
- ⦿ Contiguous to a LIC w/median family income < 125% of LIC
- ⦿ 10-year designation as Opportunity Zone
- ⦿ More than 8,700 Opportunity Zones already designated across USA and territories

Opportunity Zones – Tax Benefit

- ⦿ A temporary tax deferral for all newly realized capital gains reinvested into an Opportunity Fund, lasting until investment is sold, or December 31, 2026, whichever is sooner
 - Deferred capital gain recognized and taxable on 12/31/26
- ⦿ Incremental step-ups in basis if investment is held for 5 and 7 years
 - Reduces capital gains the longer asset is held
- ⦿ Eliminate tax on OZ Fund appreciation if held for more than 10 years

Opportunity Zones – NY State

- 514 Census tracts selected in NY State for designation as Opportunity Zones
- 306 of these census tracts (60%) in NYC
- <https://esd.ny.gov/opportunity-zones>
- <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>
- <https://www.federalregister.gov/documents/2018/10/29/2018-23382/investing-in-qualified-opportunity-funds>

Opportunity Zones – How do we capitalize?

- ◎ Link up with the Developers/Investors investing in Opportunity Zone Funds
 - Opportunity Zones usually coincide with Brownfields
- ◎ Uncertainty over deal structure to lock tax benefits (entity structure, multiple investors, timing etc.)
 - **REQUIRES LAWYERS AND ACCOUNTANTS!!!**

Opportunity Zones – Issues

- Liquidity is a concern from holding asset to maximize deferred capital gains
 - Longer time invested, lower tax burden
- Entitlement process difficult due to timeframe
 - Projects should be close to shovel ready
 - Tax benefits act as a subsidy to stimulate marginal projects
- Intended for development, not acquiring a revenue producing asset (existing building)
- Final Guidance to be published by U.S. Treasury
 - IRS Seeking comments by 12/28/18 on proposed regulations

Thank you!

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