



*We'll get you there.*

# Qualified Opportunity Zones: June 30<sup>th</sup> and Other Key Dates

May 24, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

©2022 CliftonLarsonAllen LLP. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

# Disclosures

## *CliftonLarsonAllen Wealth Advisors, LLC (“CLA Wealth Advisors”)*

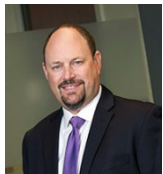
*The purpose of this publication is purely educational and informational. It is not intended to promote any product or service and should not be relied on for accounting, legal, tax, or investment advice. The views expressed are those of CLA Wealth Advisors and intended for a broad audience. They are subject to change at any time and do not take your individual circumstances into account. Past performance does not imply or guarantee future results. Investing entails risks, including possible loss of principal. Diversification cannot assure a profit or guarantee against a loss. Investing involves other forms of risk that are not described here. For that reason, you should contact an investment professional before acting on any information in this publication.*

*Financial information is from third party sources. Such information is believed to be reliable but is not verified or guaranteed. Performances from any indices in this report are presented without factoring fees or charges, and are provided for reference and competitive purposes only. Any fees, charges, or holdings different than the indices will affect individual results. Indexes are unmanaged; one cannot invest directly into an index. bonds). Returns assume reinvestment of dividends and interest and when withdrawn, cash is not invested. Indices are unmanaged, do not incur fees and expenses, and cannot be invested in directly. Rebalancing may cause investors to incur transaction costs and, when rebalancing a non-retirement account, taxable events will be created that may increase your tax liability. Rebalancing a portfolio cannot assure a profit or protect against a loss in any given market environment. No one can predict the future and all information presented here is merely a demonstration of past performance.*

*Securities products, merger and acquisition services, and wealth advisory services are provided by CliftonLarsonAllen Wealth Advisors LLC, a federally registered investment advisor and member FINRA, SIPC.*



# On the Call Today



**Jack Rybicki, CPA**

## Managing Principal

Jack is the managing principal of CLA Private Capital, which currently encompasses our Capital Markets and M&A Advisory/Investment Banking capabilities. Our Capital Markets team raises equity and debt for real estate projects while our M&A Advisory/Investment Banking team primarily performs sell-side transactions for companies in the micro and lower middle-market. Jack previously headed CLA's Real Estate industry group and served real estate private equity funds, land developers, home builders and developers/owner/operators of hospitality, commercial, retail and multi-family projects. Jack also has worked with a number of funds pursuing real estate projects in Opportunity Zones.



**Brian Duren, CPA, MBT**

## Signing Director - Real Estate

With more than 14 years in public accounting, Brian serves clients exclusively in the Real Estate industry by delivering tax compliance, consulting, and advisory services. His clients include building contractors, multi-family developers and operators, commercial real estate companies, private equity funds, land developers, and residential home builders.

As part of CLA's National Opportunity Zone Working Group, Brian assists in supporting the firm's tax practice by identifying strategies for companies and investors to employ tax-saving solutions for real estate development projects and business ventures within Opportunity Zones.



**Tony Hallada**

## Managing Principal

Tony is a Managing Principal of CLA Capital Markets within CLA Wealth Advisors. Previously, he served as the CEO of LarsonAllen Wealth Management, LLC, and CLA Wealth Advisors from 2001 – 2016. During Tony's tenure as CEO, the wealth advisory business grew from three people and \$100 million of assets to over 135 people and \$4.5 billion of assets under management, positioning the unit as one of the top five wealth managers affiliated with a CPA firm in the country. Tony is now focused on, and responsible for, advancing the firm's private investment, family office, and capital markets platforms. Tony is currently spending a great deal of his time leading the firm's initiatives around Qualified Opportunity Zone investments.



**Lucas Whelan**

## Senior Associate

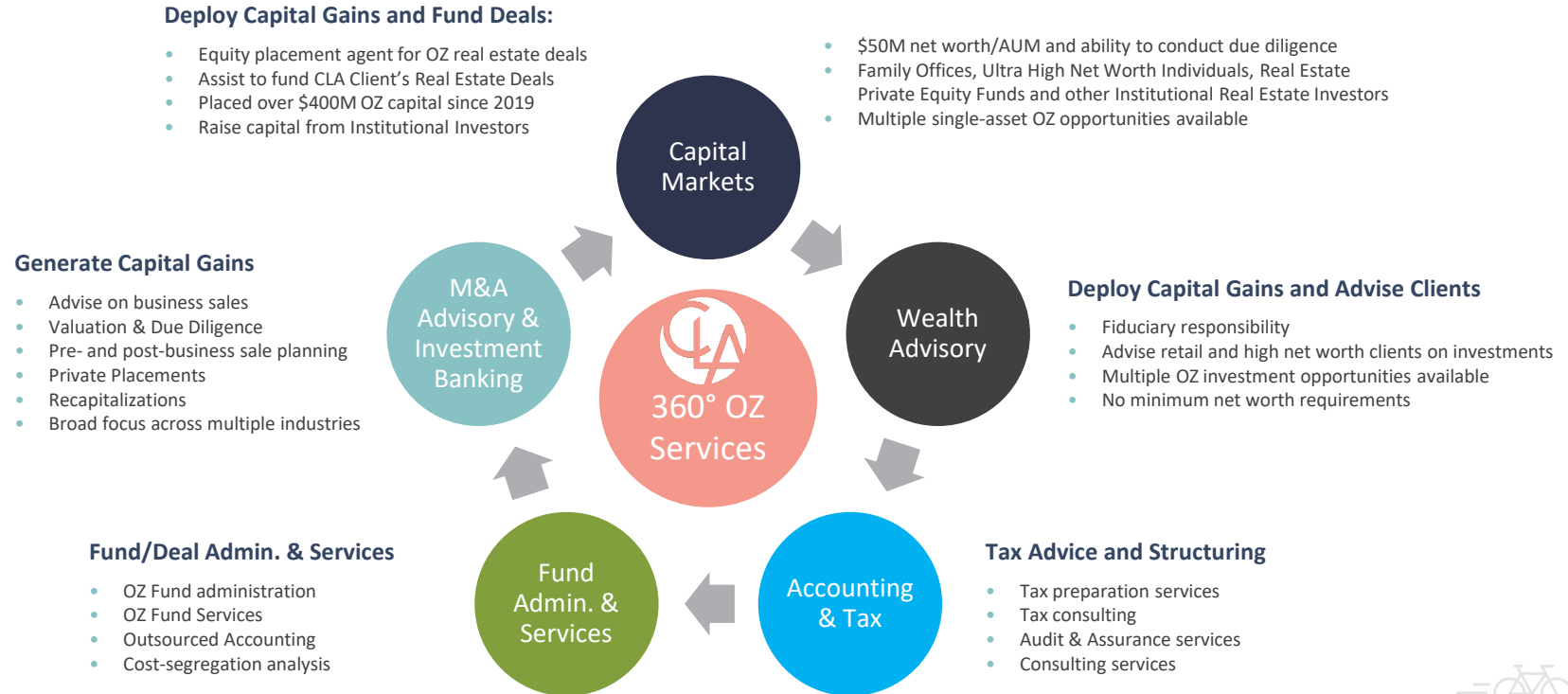
Lucas Whelan is a Capital Markets Senior Associate, working to enhance the firm's service capabilities to developers, owner/operators and investors in real estate. With more than 7 years of transaction experience on the buy-side and sell-side, he is responsible for capital markets services to current and new CLA clients.

Lucas provides various consulting services to our real estate clients, assisting in project due diligence, reviewing sponsor financial models and analysis of investment structure for CLA clients engaged for capital markets services.



# CLA and Opportunity Zones

CLA is uniquely positioned with a 360° view and service offerings for Opportunity Zone compliance and services. CLA has services to produce capital gains, deploy capital gains and service funds, and sponsors that are putting together Opportunity Zone deals.



# CLA and Opportunity Zones

CLA is a leading service provider to the Opportunity Zones industry through a variety of different business lines and service offerings. Since 2019, CLA has advised on/or placed over \$750M of private capital into Opportunity Zone deals and funds.

## Capital Markets

### **\$400M of Opportunity Zone Capital Raised since 2019**

- Multiple asset classes
- Multiple geographies across US
- Have raised capital for diversified funds and single-asset opportunities

## Wealth Advisory

### **Over \$350M of client capital has been deployed into Opportunity Zone Funds and Projects**

- Fiduciary responsibilities to clients
- Private Investment Committee vetted 15+ OZ funds, ultimately have approved and recommended 2 funds for client investment

## M&A Advisory & Investment Banking

### **Advised on over \$450M of privately-owned business sales since 2019**

- Focused solely on privately-owned business sales
- Work across multiple industries
- Have educated their clients on OZs and introduced to CLAWA

## Fund Admin. & Services

### **Outsourced fund administration, finance and accounting**

- Fund administration for single asset OZ deals and OZ funds
- Improving investor financial reporting, clarity and timeliness
- Capital raising and investor distribution administration
- Outsourced accounting reduces back-office need and allows managers to focus on high-ROI activities

## Accounting & Tax

### **Audit, tax and consulting services for OZ deals and funds**

- Over 5,000 real estate clients across the country
- Each client relationship leader is knowledgeable about OZ and other tax-efficient real estate strategies
- Tax planning services



# CLA's Impact in the OZ Program

CLA has had a significant impact in the Opportunity Zone program across multiple service lines, totaling over \$3B of invested capital that we've either advised on, placed, or structured.

### Capital Investment Made by CLA Accounting & Tax Clients

- CLA clients' total deferred capital gains (cumulative through December 31, 2021, estimated)
- Total deferred capital gains in excess of **\$1 billion**
- Investments being made primarily by individuals and trusts
- Over **75 different CLA offices** have clients who deferred capital gains

## Equity Capital Raised and Deployed by CLA Accounting & Tax Clients

- CLA clients' total capital raised (cumulative through December 31, 2021, estimated)
- Total capital deployed in excess of **\$1.3 billion**
- Over **40 different CLA offices** contain OZ clients
- More than **80 different QOZ census tracts** with investment



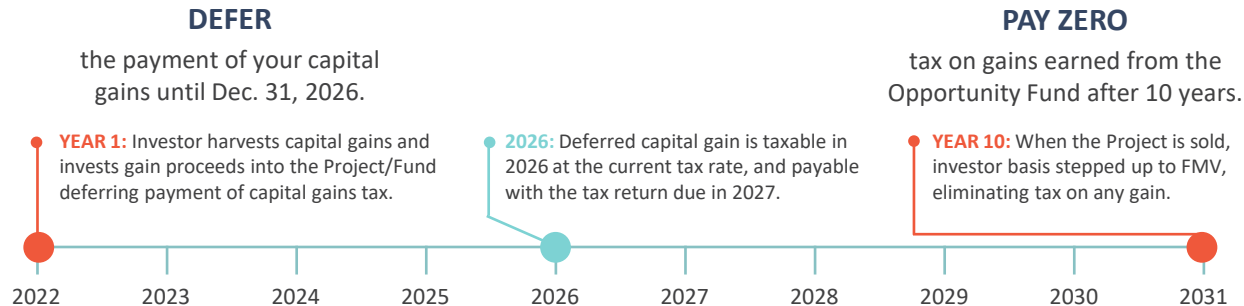
# Opportunity Zones 101

Opportunity Zones are an economic development tool that allows eligible taxpayers to invest in distressed areas in the United States and territories. The purpose of the OZ program is to spur economic growth and job creation in low-income communities while providing tax benefits to investors.

## OZ Facts and Figures:

- Opportunity Zone tracts were nominated by State governors and certified by the U.S. Dept. of Treasury.
- 8,800 designated opportunity zones throughout the U.S.
- It's been estimated that 70% of capital invested through the program is new capital, that wouldn't have been invested without the program.
- As of March 31, 2022, Qualified Opportunity Zone projects and funds have raised over \$28.37 billion, a 16.3% increase over December 31, 2021<sup>(1)</sup>.
- The increase in Q1 2022 OZ capital raised (\$3.97B) was over 3x the amount raised in Q1 2021 (\$1.18B)<sup>(1)</sup>, signaling that the expiration of the 10% step-up in basis hasn't slowed capital flows into the program.
- 20 Cities across the U.S. have \$200 million or more in planned Opportunity Zone investments<sup>(1)</sup>.

## How Opportunity Zone Investing Works



# QOZ vs. Taxable Investment

- The direct tax benefit of an Opportunity Zone investment can be up to \$289,035, when comparing a \$1M capital gain into an OZ vs. Non-OZ investment, which is created by the tax-free nature at exit.
- In addition to the tax-free treatment at exit, there are multiple benefits not included in this analysis.
- First, accelerated depreciation during the 10-year hold period, which can shelter income from the investment.
- Second, gains and depreciation recapture are sheltered through the Pay Zero benefit, which isn't available to non-OZ investments.
- The analysis to the right assumes a 10-year hold and 10% IRR to calculate future value of the investment.

	Non-QOZ	QOZ Investment
Capital Gain	\$1,000,000	\$1,000,000
Less Federal Taxes (Current 23.8%)	(238,000)	0
<b>Available for Investment</b>	<b>\$762,000</b>	<b>\$1,000,000</b>
<b><u>Deferred Tax Payable at Dec. 31, 2026</u></b>		
Deferred Gain	\$0	\$1,000,000
<b>Taxable Gain</b>	<b>0</b>	<b>1,000,000</b>
<b>Federal Taxes (Current 23.8%)</b>	<b>\$0</b>	<b>(\$238,000)</b>
<b><u>After 10-Year Holding Period</u></b>		
Future Value of Investment (10% IRR)	\$1,976,432	\$2,593,742
Original Investment	762,000	1,000,000
<b>Appreciation (Future Capital Gain)</b>	<b>1,214,432</b>	<b>1,593,742</b>
<b>Federal Taxes (Current 23.8%)</b>	<b>(\$289,035)</b>	<b>\$0</b>
Net Cash Flow After 10 Years (Pre Tax)	\$1,214,432	\$1,593,742
Net Cash Flow After 10 Year (After Tax)	\$925,397	\$1,355,742
Tax Savings from No Capital Gains at Exit	\$0	\$289,035
<b>Total Tax Benefit from OZ Investment</b>		<b>\$289,035</b>

\* Future appreciation over 10-year holding period does not contemplate additional benefits from depreciation or loss allocations





# Important Dates to Keep in Mind

- There are many important dates to track and keep in mind as investors assess making Opportunity Zone investments. The best advice we can give is to consult your tax professional to make sure that the investment is a qualifying investment.
- 

## Eligibility:

- Capital Gain
- Qualifying section 1231 gain

## Timeout Dates:

- Closing date +179 days
- Multiple variations on closing date depending upon the ownership structure of the asset sale that generated the gain.
- Direct ownership capital gain will have 180 days from the recognition date, which is likely the closing/sale date.
- Gains realized by pass-through entities (i.e., partnerships, s-corporations) have three possible recognition dates investors can use to start their 180-day window.
  - Transaction closing date
  - December 31st – End of year for calendar year end pass-through entity.
  - March 15th – Original due date of pass-through entity tax return.
- The date the money is transferred to the fund will start the 10-year hold window for that individual investor. If investing in a large diversified fund, 10-year clock will start when the last investors money comes in.



# Legislative Developments

## Opportunity Zones Transparency, Extension, and Improvement Act

On April 7, Senators Cory Booker (D-NJ) and Tim Scott (R-SC) and U.S. Representatives Ron Kind (D-WI) and Mike Kelly (R-PA) introduced a bipartisan, bicameral bill reforming Opportunity Zones, the tax incentive for individuals who reinvest unrealized capital gains into high-impact projects in underserved communities.

Additionally, U.S. Senators Mark Warner (D-VA), Chris Van Hollen (D-MD), and Todd Young (R-IN) and Representatives Terri Sewell (D-AL-07), Dan Kildee (D-MI-05), and Jackie Walorski (R-IN-02) co-sponsored the legislation.

The Act proposes a series of improvements to the tax incentive, which are outlined below.

### Proposed Changes Include:

- Extend the incentive for two years (to *December 31, 2028*) in order to facilitate continued investment
- Create pathways for smaller-dollar impact investments
- Early sunset of OZ census tracts that are not impoverished
- Reinstate and expand reporting requirements
- Provide operating support and technical assistance to high-poverty and underserved communities through a State and Community Dynamism Fund



# OZ Investor Considerations

## Proposed Changes:

- **Extend the incentive for two years in order to facilitate continued investment.**
  - It took the Treasury Department nearly two years to issue final regulations governing Opportunity Zones, during which time many investors and stakeholders stayed on the sidelines awaiting clear rules for the policy. Extending the policy by an equal amount of time will help investors and communities fully use the tool as Congress intended.
- **Create pathways for smaller-dollar impact investments.**
  - By allowing QOFs to be organized as a “fund of funds” that may invest in other QOFs, smaller communities and projects would be better equipped to attract the capitalization they need.

## What this means:

- **Extend the incentive for two years.**
  - Would make the 10% and 15% step-up in basis available for investors that meet the required holding periods before Dec. 31, 2028.
  - Reduce holding period to 6 years to receive 15% step-up in basis. Holding period remains 5 years for 10% step-up.
  - Retroactive application to investors that may have missed the 10% or 15% step-up for investments made in 2020, 2021, and 2022.
- **Create pathways for smaller-dollar investments.**
  - Ability to organize a “fund of funds” or “feeder fund” which can invest directly into another QOF would allow smaller investments to be aggregated.
  - Would create increased investment opportunities for smaller check writers.



# OZ Sponsor Considerations

## Proposed Changes:

- **Early sunset Opportunity Zones that are not impoverished.**
  - The legislation would sunset the OZ designation for any tracts with a median family income at or above 130 percent of national MFI and provides states with flexibility to further sunset additional zones. States would be able to replace the sunset zones one-for-one with eligible high-need communities.
- **Reinstate and expand reporting requirements.**
  - Reinstating the reporting requirements will promote transparency, ensure the program is operating as intended, and allow for the tracking of long-term outcomes in designated communities.
- **Provide operating support and technical assistance to high-poverty and underserved communities through a State and Community Dynamism Fund.**
  - Flexible grants will help states drive private and public capital to underserved business and communities.

## What this means:

- **Early sunset of OZ tracts.**
  - Limit investment in current OZ census tracts that have already undergone significant transformation since 2010 and now have MFI exceeding 130% of national MFI.
  - Existing investment into census tracts meeting this criteria would not lose eligibility, protections established for existing early-stage projects.
- **Reinstate and expand reporting requirements.**
  - Increased transparency would provide measurable social benefits for OZ investments.
  - Would likely increase compliance costs for OZ funds and businesses
- **State and Community Dynamism Fund.**
  - Funding targeted towards projects in high-need communities; increase investment in minority-, women, and veteran-owned businesses; advance workforce development efforts in strategic sectors of the state's economy; and create additional affordable housing.



# CLAs OZ Investment Opportunities

## CLA Wealth Advisory:

CLA Wealth Advisory (CLAWA) is a provider of traditional wealth advisory, financial planning, and investment advisory services. Private investments and more specifically, Opportunity Zone investments and funds, have played a large role in our client's tax planning and investment portfolios over the last three years.

CLA Wealth Advisory's Assets Under Management sits at ~\$10B as of 5/16/2022, and over \$350M of client capital has been deployed into Opportunity Zone funds through our platform.

### **Past and Current OZ Opportunities:**

- Arden Qualified Opportunity Zone Fund I – Diversified OZ fund
- Multiple Inland Private Capital direct Opportunity Zone projects and funds
- Griffin Capital Opportunity Zone Fund III

## CLA Capital Markets:

CLA Capital Markets is a boutique real estate capital markets advisory group, focused exclusively on real estate equity capital raises. CLA advises on the entire capital stack, but we differentiate ourselves from other advisors and placement agents by **bringing an equity-first mindset**.

CLA Capital Markets works exclusively with institutional investors, defined as \$50M in net worth and ability to conduct due diligence. We primarily work with family offices, private equity funds and ultra high net worth individuals that have had significant capital gain events and are looking to defer some of the pending tax liability.

### **Past and Current OZ Opportunities:**

- Qualified Opportunity Zone Funds – Multiple funds with different strategies
- Direct Opportunity Zone Projects – Typically multifamily or industrial projects located in OZs across the United States
- Non-OZ funds and projects as well





## Recent CLA Equity Placements

### The Yards Phase II

South St. Paul, MN (OZ)  
111 Unit Multifamily



\$8M JV Equity

### RevOZ Capital

Newport Beach, CA (OZ)  
Diversified OZ Fund



\$9M Fund Equity

### River City Business Park

Saint Louis, MO  
454K SF Industrial



\$14M JV Equity

### SoHo House

Portland, OR  
Mixed Use



\$2.5M JV Equity

### Arden QOF

Philadelphia, PA (OZ)  
Diversified OZ Fund



\$35M Fund Equity

### Nova Apartments

Milwaukee, WI (OZ)  
150 Unit Multifamily



\$3.6M JV Equity

### DXD Capital

Albuquerque, NM  
Diversified Self-Storage



\$1.5M Fund Equity

### Bow River RE Fund

Denver, CO  
Diversified RE Fund



\$10M Fund Equity

### City Foundry Phase II

St. Louis, MO (OZ)  
Mixed-Use



\$55M JV Equity

### WeHo Apartments

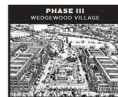
Nashville, TN (OZ)  
150 Unit Multifamily



\$13M JV Equity

### Wedgewood Village

Nashville, TN (OZ)  
Mixed-Use



\$25M+ Fund Equity

### Little River QOF

Miami, FL (OZ)  
Mixed-Use



\$3M+ Fund Equity

### The Yards Phase I

South St. Paul, MN (OZ)  
154 Unit Multifamily



\$11M JV Equity

### 1705 N. American

Philadelphia, PA (OZ)  
179 Unit Multifamily



\$3.0M JV Equity

### OKC NNN Fund

Oklahoma City, OK  
5 Health Clinics



\$3M Fund Equity

### 2110 E. Norris St.

Philadelphia, PA (OZ)  
95 Unit Multifamily



\$2.3M JV Equity

### Terra Apartments

St. Louis, MO (OZ)  
307 Unit Multifamily



\$8M JV Equity

### 40<sup>th</sup> & Central

Columbia Heights, MN (OZ)  
266 Unit Multifamily



\$25M JV Equity

### The Isaac

Roseville, MN  
127 Unit Multifamily



\$10M JV Equity





The information herein has been provided by CliftonLarsonAllen LLP for general information purposes only. The presentation and related materials, if any, do not implicate any client, advisory, fiduciary, or professional relationship between you and CliftonLarsonAllen LLP and neither CliftonLarsonAllen LLP nor any other person or entity is, in connection with the presentation and/or materials, engaged in rendering auditing, accounting, tax, legal, medical, investment, advisory, consulting, or any other professional service or advice. Neither the presentation nor the materials, if any, should be considered a substitute for your independent investigation and your sound technical business judgment. You or your entity, if applicable, should consult with a professional advisor familiar with your particular factual situation for advice or service concerning any specific matters.

CliftonLarsonAllen LLP is not licensed to practice law, nor does it practice law. The presentation and materials, if any, are for general guidance purposes and not a substitute for compliance obligations. The presentation and/or materials may not be applicable to, or suitable for, your specific circumstances or needs, and may require consultation with counsel, consultants, or advisors if any action is to be contemplated. You should contact your CliftonLarsonAllen LLP or other professional prior to taking any action based upon the information in the presentation or materials provided. CliftonLarsonAllen LLP assumes no obligation to inform you of any changes in laws or other factors that could affect the information contained herein.