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## INSIGHT: Impact Investing and Finding the Good in Opportunity Zones



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Depending on what you read, the qualified opportunity zone (QOZ) program is either the best investment opportunity in a generation or just another example of ill-conceived legislation that makes the wealthy even wealthier. In today's political climate of extremes on both ends of the spectrum, it is worth discussing why this program may not simply be one or the other; but, instead, a program that is malleable in the hands of state and local government officials, investors, and community members.

There has been no shortage of well-deserved criticism of the QOZ program created by the 2017 Tax Cuts and Jobs Act. The legislation was vague and [poorly written](#), the two rounds of proposed regulations have not answered all questions nor provided adequate guardrails [to prevent abuse](#), and funds comprised of the [most affluent in wealth management and advisory](#) have jumped on the opportunity to juice returns for projects that would have been built regardless whether a tax subsidy existed.

At the same time, there have been instances of funds and individuals seeking to buck these legislative shortcomings and utilize the incentives to address the underlying societal issues which this program was supposedly intended to address. Sean Parker, co-founder of Napster and first president of Facebook, helped co-found the [Economic Innovation Group](#) that is seeking to connect private capital with low-income communities across America. Kristin Hull, CEO and founder of [NIA Impact Capital](#), has taken it upon herself to carry out the mission and spirit of the legislation regardless of whether it is required by the letter of the law. Hull's fund targets investments in female-led companies seeking to play a role in a transition to a sustainable

economy. Moreover, there are examples of individual real estate developments partnering with startup-centric [innovation hubs](#) to further bolster the economic and societal impacts of such a development. [Start Co.](#), an incubator focused on providing a range of support and guidance for tech startups, has partnered with the Union Row Development in Memphis, Tenn., and agreed to relocate their offices and occupy at least 14,000 square feet of the new QOZ development.

Clearly then, with examples of potential high and low points, the QOZ program is not something to simply write-off or trust blindly. Rather, it is a significant opportunity for local non-profits, economic development organizations, and local governments to shape an incomplete program into something transformational. While it would be more effective for the Internal Revenue Service and Treasury Department to provide clear guidelines that eliminate all possibilities for abuse, the absence of such oversight should not dampen the excitement of the extraordinary transformative possibilities of this program.

There are a number of ways in which the QOZ program can be incorporated into on-going redevelopment plans and help to bridge funding gaps for projects that otherwise might struggle to be economically viable. Most obviously, the ability to lower the cost of capital through tax-advantaged QOZ dollars for an affordable housing development can take a project from not feasible to investment-worthy. It is important for would-be investors and developers in such a project to remember that the QOZ incentives can be complementary to existing federal incentives for such a project—including New Markets Tax Credits, the Historic Tax Credit program, and other programs funded by the Department of Housing and Urban Development.

Furthermore, the QOZ program's allowance for investments in on-going businesses to qualify as eligible incentivizes the business community to reassess underserved portions of towns and cities. Investments in operating businesses within the zones can be used to recapitalize or aid in the expansion of such a business which may not have received the same attention but for this incentive. Additionally, businesses seeking to expand their footprint or upgrade a headquarters should consider identifying properties within a zone and benefit from the incentive while simultaneously activating areas in need. Again, this opportunity for businesses can be shaped and further incentivized by local governments through the provision of additional enticements, such as tax incremental financing districts, PILOT programs, and tourism development zones. Through the strategic use of such programs, local and state governments can co-opt the QOZ program to further bolster economic redevelopment plans already underway and shift private investment to areas of a city or town in need of the additional incentive.

Finally, the QOZ program offers a unique opportunity for individuals in cities across the country to invest in their own startup culture and maintain their home-grown talent or, potentially, attract transplants. Similarly structured to a typical venture capital fund, a Qualified Opportunity Fund (QOF) could be formed to make equity investments in new and scaling companies as long as they agree to locate their headquarters in a QOZ. Depending on the life cycle of the company, investments used to purchase fixed assets and lease office

space may be more than sufficient to meet the requirements as qualifying investments for the QOF. Additionally, the creation of a tech incubator or QOF venture fund also could be supported from the public sector through additional grants and incentives channeling such a tech hub into a particular part of a city.

Taken as a whole, the QOZ program provides a foundation on which state and local governments can build. While large scale tax incentive programs like this should not require the oversight of local governments to ensure their effectiveness, that is the unfortunate reality of the QOZ program. Rushed drafting, an overburdened IRS, and loose regulations require oversight to be exerted from all levels of government. The shortcomings of this program do not need to be its undoing. Cities, towns, and rural communities across the country are all currently undergoing some sort of revitalization. Grand redevelopment plans frequently require forward-thinking local officials in addition to strong private partnerships that deliver capital to bring such plans to life. The QOZ program, when effectively incorporated into larger redevelopment plans, may offer one additional tool to bridge funding gaps and transform cities.

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