Forging Opportunity

LISC

National Equity Fund INC
an affiliate of LISC

An affiliate of LISC
NMSC
New Markets Support Company

With residents and partners, LISC forges resilient and inclusive communities of opportunity across America–great places to live, work, visit, do business and raise families.

LISC Family

LISC
Helping neighbors build communities

National & 33 Local Offices
Programs & Lending

National Equity Fund INC
an affiliate of LISC

Housing & Mixed Use
LIHTC Investments

An affiliate of LISC
NMSC
New Markets Support Company

Economic Development
NMTC Investments

immito
PROPEL YOUR JOURNEY

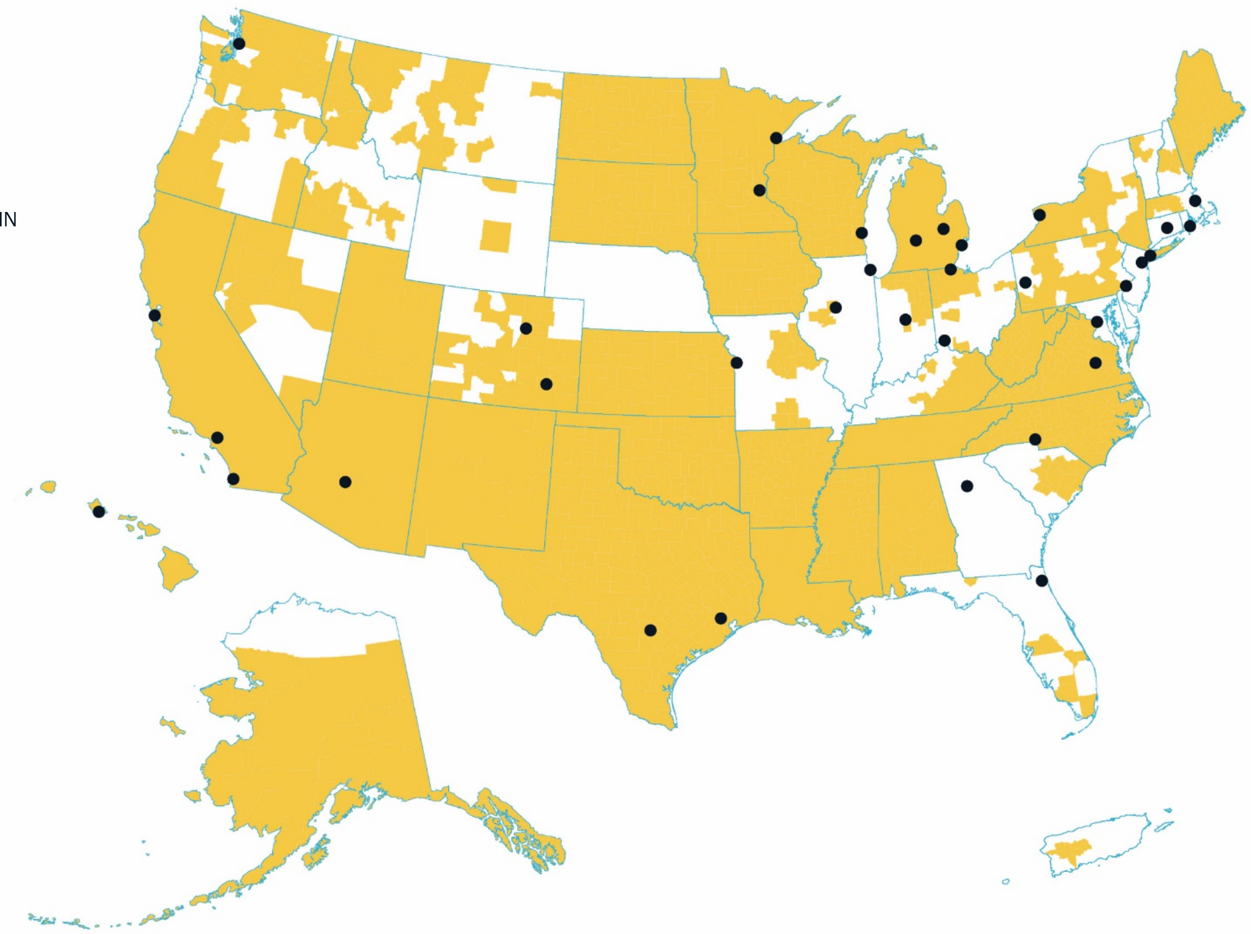
Small Business
SBA 7a Lending

Regional Presence meets Financial Sophistication

Our Reach

Office Locations

Atlanta, GA
Boston, MA
Buffalo, NY
Charlotte, NC
Chicago, IL
(LISC, NEF, NMSC)
Cincinnati, OH
Denver, CO
(immito)
Detroit, MI
Duluth, MN
Flint, MI
Fowler, CO
(Rural HQ)
Hartford, CT
Honolulu, HI
Houston, TX
Indianapolis, IN
Jacksonville, FL
Kalamazoo, MI
Kansas City, MO
Los Angeles, CA
Milwaukee, WI
Minneapolis/St. Paul, MN
New York, NY
Newark, NJ
Peoria, IL
Philadelphia, PA
Phoenix, AZ
Pittsburgh, PA
Providence, RI
Richmond, VA
San Antonio, TX
San Diego, CA
San Francisco, CA
Seattle, WA
Toledo, OH
Washington, DC



2,000 Partners

Our national network includes nonprofits, businesses and government agencies in both rural and metropolitan areas

3 National Affiliates

National Equity Fund
www.nefinc.org

New Markets Support Company
www.newmarkets.org

immito
www.immito.com

Since 1979

$18.6 billion invested

$56.2 billion leveraged

376,000 homes

Affordable homes built and/or preserved including:

- Multifamily rental
- Supportive housing for special populations such as chronically homeless, LGBTQ, seniors and veterans
- Affordable homeownership

We also emphasize sustainability through green, healthy housing and transit oriented development.

63 million square feet

Square feet of commercial, retail and community space, including:

- Early childhood centers
- Schools
- Fields/recreational spaces
- Healthcare centers
- Grocery stores
- Financial Opportunity Centers

$287 million

Total Net Assets

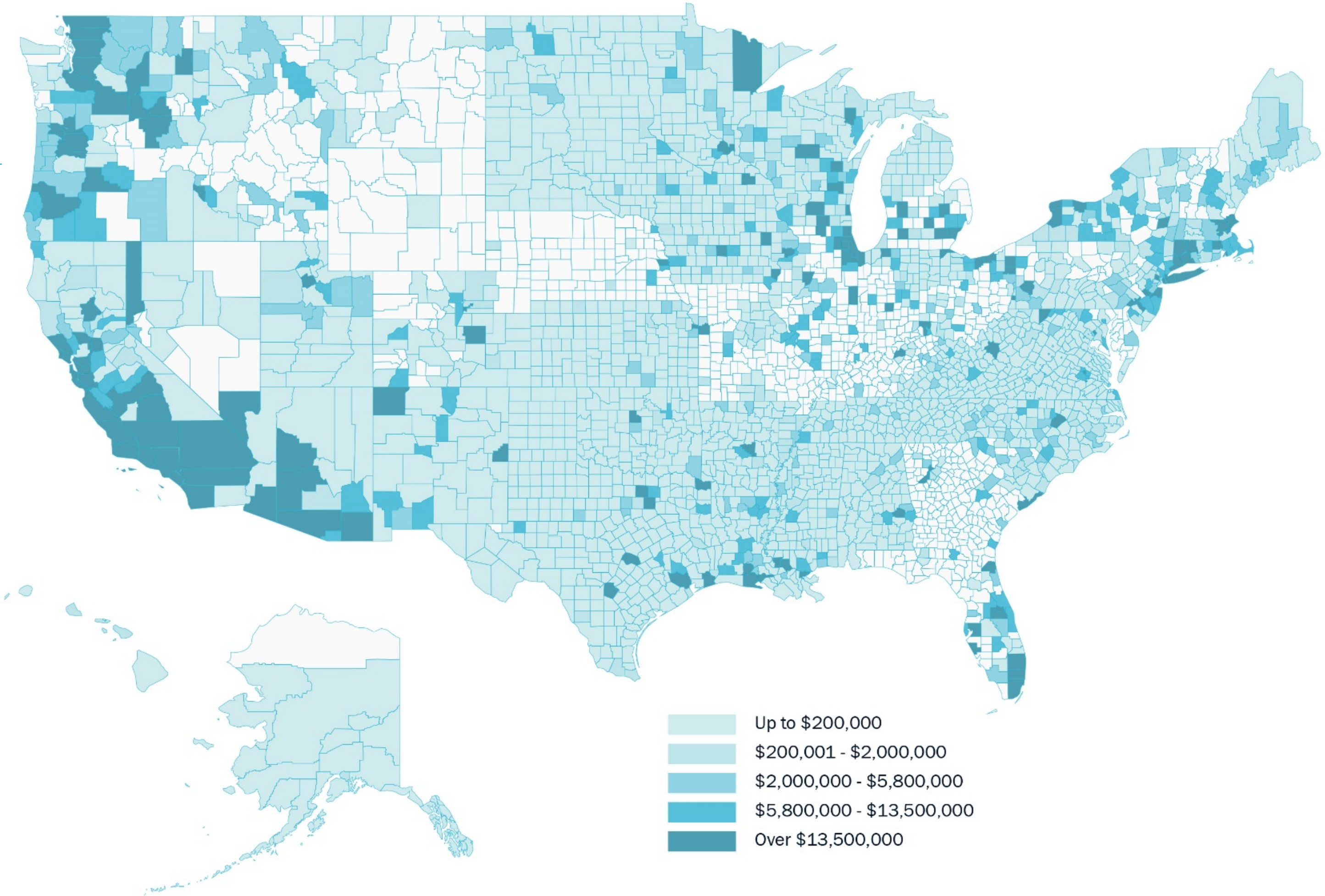
- Net worth has increased 48% in the past 4 years
- Closed on more than $1.6 billion of debt transactions with NO defaults
- Raised an average of $123 million annually in grants over the past 3 years

S&P 'AA' Rating

LISC is the first CDFI to tap the general obligation bond market, with a $100 million issuance in 2017

The Results

Investments by US county



We have made investments in every state.

Our Impact

We create opportunities for people to thrive.

376,000 affordable homes for more than a million people

430 schools and early childhood centers for 100,000+ students

366 fields and recreational spaces for more than 600,000 kids

80 financial opportunity centers serving 79,000 people over the last five years

170 food and health-related projects serving thousands of families

Plus 100s of other retail, arts and community projects

Our Comprehensive Approach

Empower people

- Job skills training & career development support
- Financial coaching
- Educational facilities
- Investments in access to healthcare, healthy food & recreation

Transform places

- Preservation & construction of affordable housing
- Commercial, industrial & community facilities & district development
- Creative placemaking
- Transit oriented development
- Stewardship of sustainability & disaster resiliency
- Community / law enforcement partnerships

Support enterprises

- Small business lending & coaching
- CBO capacity building
- Leadership development
- AmeriCorps deployment

Drive systems innovation

- Resource advocacy & coalition building
- Partnership facilitation across sectors
- Advocacy to increase protections, change policies & practices at national, state & local levels

Our Model

LISC is an investor, capacity builder, convener and innovator.

Pool public and private dollars

We raise funds from philanthropies, corporations and financial firms, federal, state and local governments and through the capital markets.

We also generate income from consulting, and lending services.

Work with local partners

Through a network of local offices and community-based partners across the country, we provide grants, loans, equity and technical assistance.

We also lead advocacy efforts on local, regional and national policy.

Support people and places

By investing in housing, businesses, jobs, schools, public spaces, safety, youth, health centers, grocery stores and more, we catalyze opportunities in communities nationwide.

What are Opportunity Zones?

The Opportunity Zone tax incentive is a bipartisan initiative to spur long-term private investment in low-income urban and rural communities, established by Congress in the 2017 **Investing in Opportunities Act**.

U.S. investors currently hold $2.3 trillion in unrealized capital gains, representing a significant untapped resource for economic development.

Why now?

Data from the Economic Innovation Group. Read more at eig.org/opportunityzones

More than half of America's most economically distressed communities contained both **fewer jobs and businesses in 2015 than they did in 2000.**

New business formation is near a record low. The average distressed community saw a **6 percent decline** in local businesses during the prime years of the national economic recovery.

The U.S. economy is increasingly dependent on a handful of places for growth. **Five metro areas** produced as many new businesses as the rest of the country combined from 2010 – 2014.

Now is the time to diversify.

What are Opportunity Zones?

Opportunity Zone: A low-income census tract (LIC), as determined within New Markets Tax Credits legislation, is designated as an Opportunity Zone (OZ) by the governor of the of the state or territory in which it is located. Designations will stay in place for 10 years.

Up to 25% of LICs in a U.S. state or territory may be designated as OZs.

States or territories in which there are fewer than 100 LICs may designate up to 25 LICs as OZs.

Up to 5% of census tracts contiguous to LICs may be designated as OZs, if the median family income of the census tract does not exceed 125% of the median family income of the LIC to which the tract is contiguous.

Designated Opportunity Zones

8,762

census tracts designated

24 million

current jobs in designated tracts

1.6 million

businesses in designated tracts

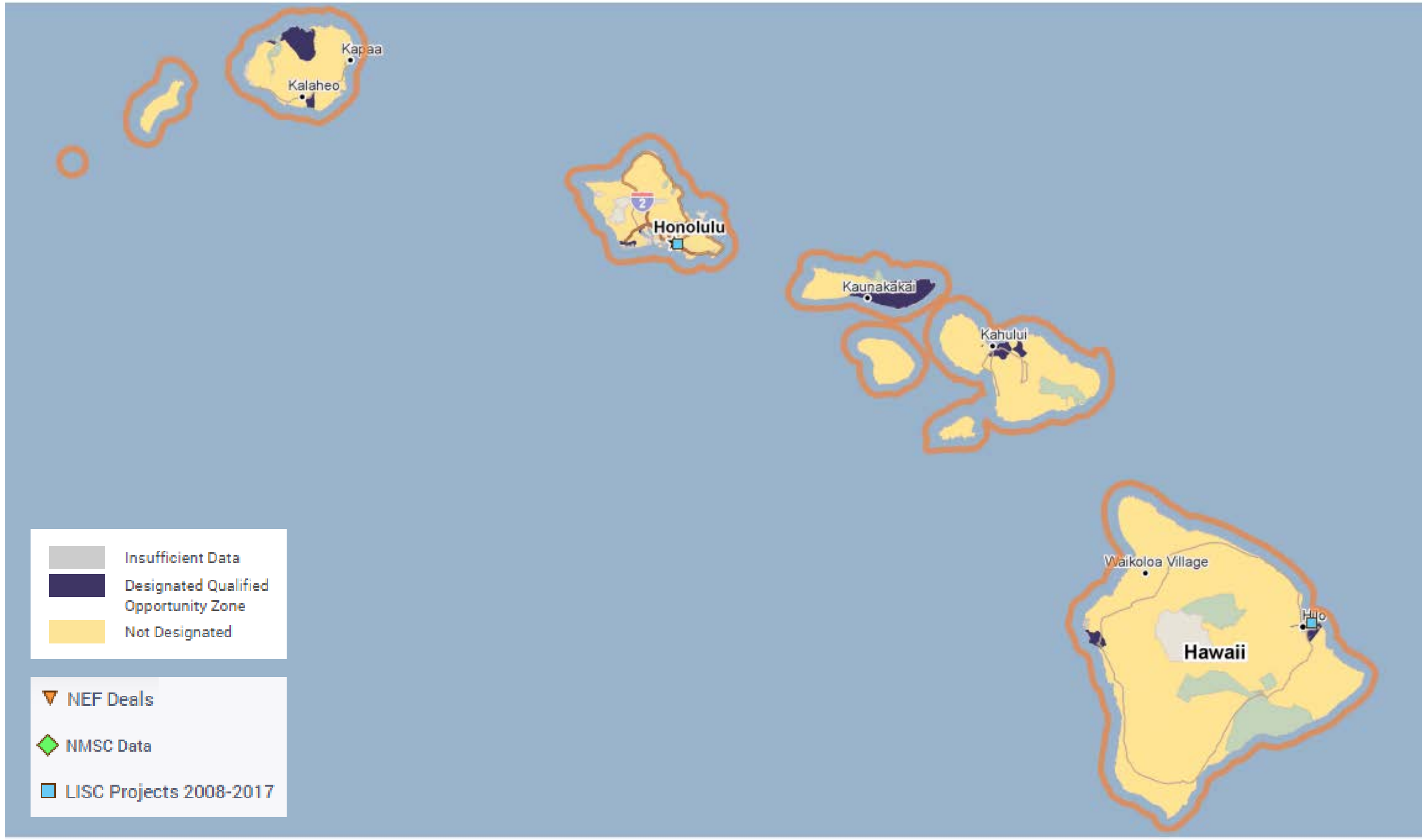
Rural census tracts	1,858
Average poverty rate	31%
Average unemployment rate	14.4%
Average family income in OZ census tracts relative to area median income (AMI)	60%

Hawaii Designations

25

census tracts designated

Rural census tracts	7
Average poverty rate	21.2%
Average unemployment rate	7.6%
Average family income in OZ census tracts relative to area median income (AMI)	64.2%



LISC Activity in Opportunity Zones

924

number of Opportunity Zones where LISC, NEF and NMSC have made investments

10.5%

total number of census tracts designated by the states

36%

percentage of Opportunity Zones in LISC program markets accounted for in LISC's Quality of Life planning

LISC Deals in Opportunity Zones since 2008	638
NEF Deals in Opportunity Zones since 2008	178
NMSC Deals in Opportunity Zones since 2008	49

LISC has invested $2.3 Billion in Opportunity Zones since 2008

Investor **Incentives**

Deferral of taxes

On capital gains invested in Qualified Opportunity Zone Funds

Reduction of taxes

On investments held in Qualified Opportunity Zone Funds 5+ years

Cancellation of taxes

On new gains made through Qualified Opportunity Zone Fund investments held 10+ years

Key Points

Investors

- Tax incentive is most valuable for 10 year investments in appreciating assets
- Six months to invest after realizing a capital gain
- Another 30 months to deploy 90% of capital in Zones
- Capital is required to be an equity investment – loans from investors are not eligible for the tax incentive

Funds

- All capital must flow through an Opportunity Fund to be eligible for the tax incentive
- Funds are self-certified via an IRS tax form
- Fund must be established for the purpose of investing in Opportunity Zones
- 90% of fund assets must be invested in Zones to maximize the tax incentive

Eligible Investments

- Must be equity investments
- Real estate investments must include substantial rehabilitation – doubling basis within 30 months
- “Sin businesses” are not eligible
- Other requirements include property use in “active conduct of business” and limits on assets held in cash

LISC Roles in Opportunity Zones

Impact Investors

Raise, Deploy & Manage Impact Equity

Developers & Business Owners

Finance & Co-Develop Projects & Businesses

Local Stakeholders

Policy, Community Planning & Advocacy

Community Development

Research, Metrics & Industry Leadership

Eligible Investments

Only equity investments are eligible for the Opportunity Zone tax incentive.

1. **Business investments**

   can include investments in new stock issuance for corporations and ownership interests in partnerships and LLCs.

2. **Investments in real estate**

   must include an ownership interest of new construction or assets that will be "**substantially improved**" within 30 months of acquisition by the Opportunity Fund.

3. **New equipment and other assets**

   are also eligible investments.

Economic Development Examples

1. **Business infrastructure real estate funds:**
   - Industrial
   - Retail
   - Mixed use
   - TOD

2. **Venture capital funds:**
   - Seed stage investments
   - Series A investments

3. **Operating business private equity:**
   - Businesses moving or expanding into an Opportunity Zone
   - Equipment financing

4. Enhancement for other federal tax credit transactions:
   - NMTCs
   - Historic Tax Credits

Sample Economic Development Deal

MLK Gateway Community Partners

Located in Washington, D.C.

A 50,500 SF commercial project with retail space, a grocery store providing career training for entry-level employees, a branch of City First Bank, an East of the River Real Estate Career Academy location, other community-driven amenities and anchor employer/tenant Enlightened, Inc., an award-winning minority-owned information technology consulting firm.

Enlightened will run a technology firm incubator dedicated to developing minority-owned tech companies through the federal 8a business development program.

$5 million

Opportunity Zone Equity Investment

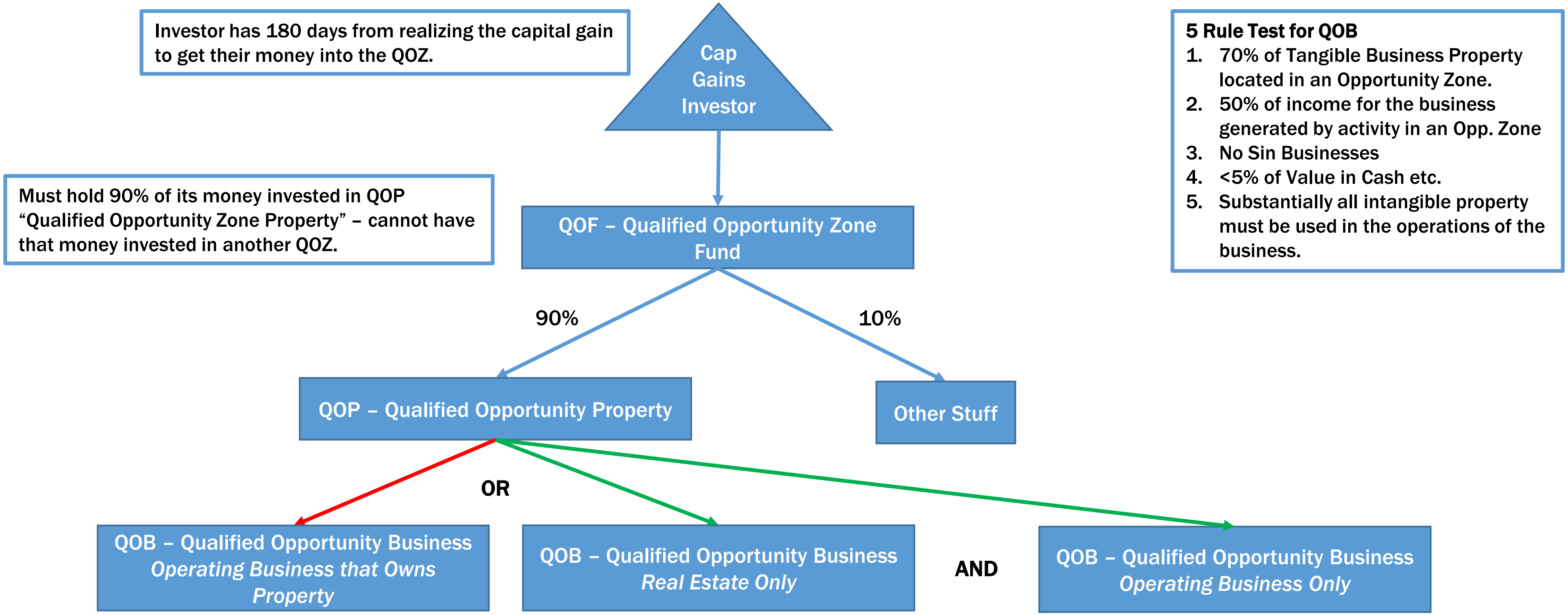
$6.7 million

New Market Tax Credit

$24.6 million

Total Development Costs

Sample ED Deal Structure



Housing Examples

1 Pairing with LIHTC or the HTC

- Tax credit investments providing housing for families at or under 60% AMI
- 15 year investment period
- Investors = corporate investors with capital gains to invest and tax credit appetite (may be a limited investor market).

2 Workforce Rental Housing

- Providing housing for families at 80 – 120% AMI (Middle Income Housing that is needed in many communities).
- 10 year investment period
- Investors = individuals or corporations

3 Lease-to-own Housing – ???

- Single family or multi-family
- Investors = social impact focus
- Requires ability to revolve ozone equity capital.

Sample Housing Deal

New Construction of 116 units for families with rents at 80-110% AMI

Redmond, OR

- Proven project in market (prior phases in non-Ozone locations)
- Expect this to be Single Asset Opportunity Fund with High Net Individuals as investors
- Capital Stack: Between 30 – 40% from ozone equity depending on return required by investor. Remainder of financing from non-recourse first mortgage.
- Investors to get preferred annual cash payments
- Exit scenario in year 10 - either sale or refinancing. Return of capital plus split of sales proceeds

$13 million

Equity Investment

$2 million

Acquisition & Pre-Dev Debt

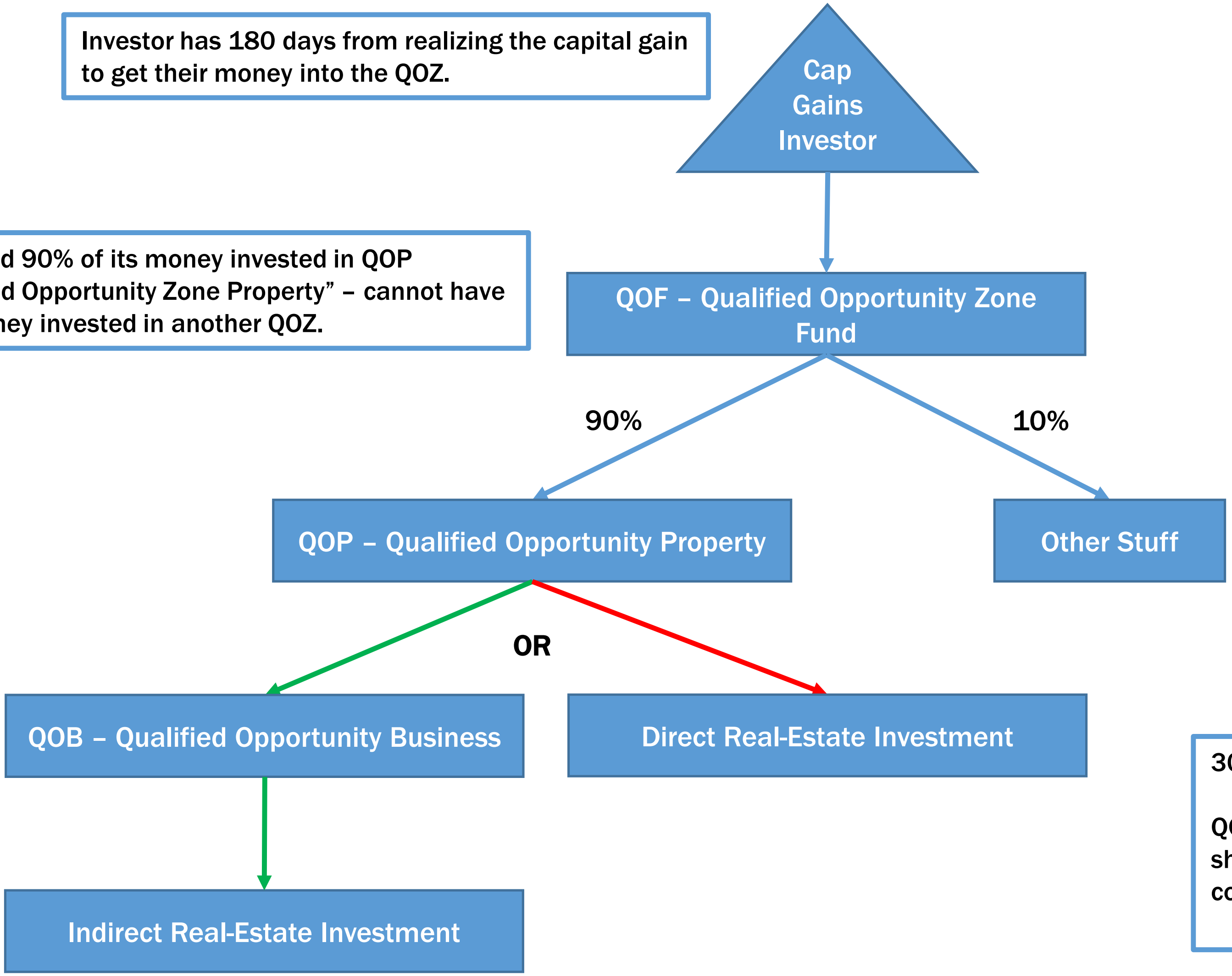
$31 million

Total Project Budget

Sample Housing Deal Structure

Investor has 180 days from realizing the capital gain to get their money into the QOZ.

Must hold 90% of its money invested in QOP "Qualified Opportunity Zone Property" – cannot have that money invested in another QOZ.



30 Month Rule

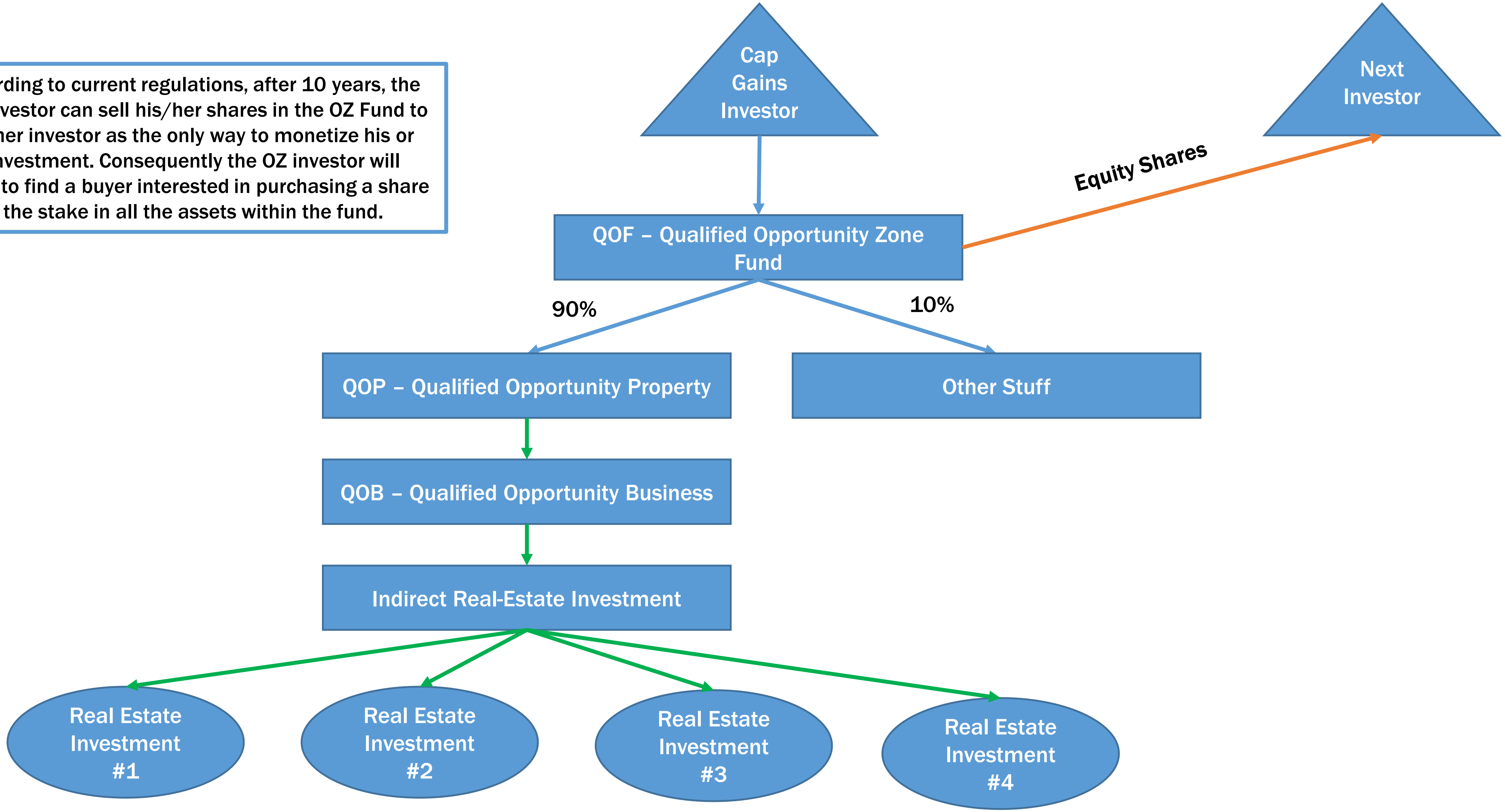
QOB gets an exemption from the cash on balance sheet restrictions if it is within the 30 month construction schedule for the project.

Investment Considerations

- **Project risk/return** - depends on market, and how investment matches to investor goals and other potential investment options.
- **Substantial Improvement Requirement** means that substantial rehab and new construction deals are what will work best with this new program.
- **Rents at 80% – 120% AMI** (Non-LIHTC investments)
    - Lower rents possible with an investor willing to take a lower return or if city or state willing to provide soft secondary financing to allow for lower rent structure/ discounts on land/ RE tax abatement
- **Perm debt** preferred to be structured as non-recourse
- **Exit Issues** – plan for liquidity event in year 11 – either sale or refinancing (Non-LIHTC investments)

Multi or Single Asset Funds - Disposition/Sale

According to current regulations, after 10 years, the OZ Investor can sell his/her shares in the OZ Fund to another investor as the only way to monetize his or her investment. Consequently the OZ investor will have to find a buyer interested in purchasing a share or all the stake in all the assets within the fund.



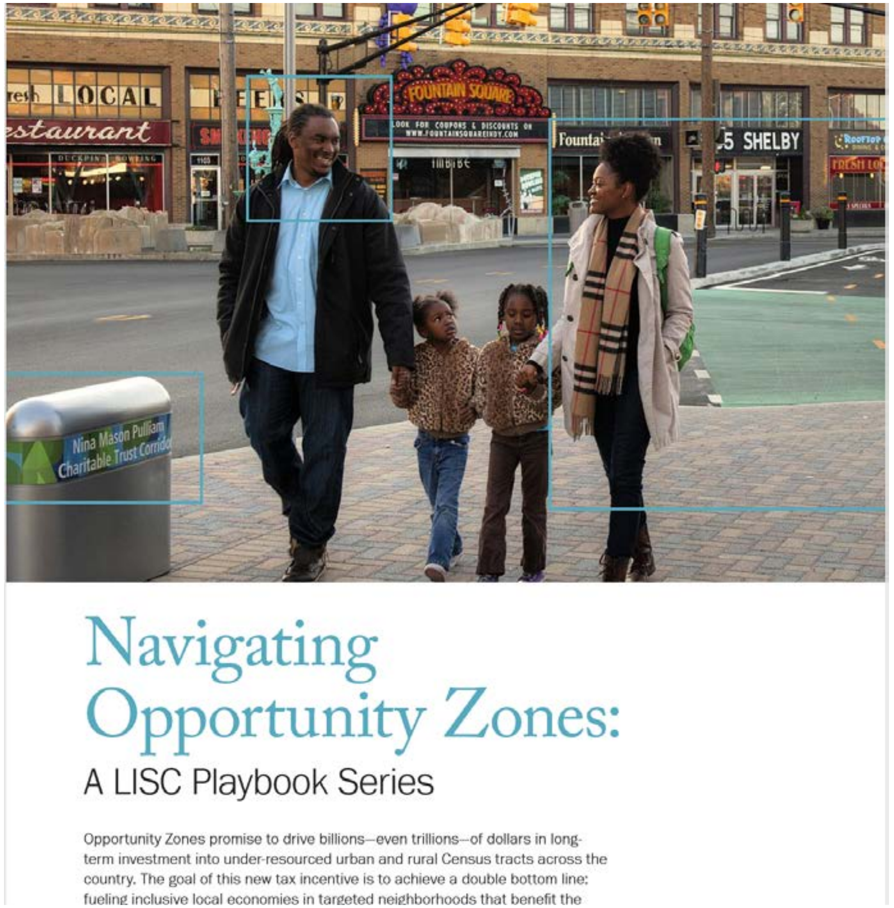
Outstanding Questions

1. Timing on QOZ investment in business/real-estate?
2. Investment dollars usage - paying down debt (Yes) – but other uses?
3. Can the fund sell assets and recycle investment?
4. What qualifies as substantial improvement on vacant land?
5. Does re-engaging vacant properties qualify as a new use?
6. 50% of revenue come from activity in the local business?
7. Can the Fund sell assets itself to monetize the funds holdings?

Making the Case for Impact

- ✓ Protection of Principal – speculative vs. yield investments
- ✓ Preparing for Potential Economic Downturn
- ✓ Double Bottom Line – Impact Investments
- ✓ Favorable Permitting and Development
- ✓ Avoiding Bad Press – Community Development Issues
- ✓ CRA Eligibility
- ✓ Crowdfunding for Impact

Opportunity Zones – Playbook Series



Navigating Opportunity Zones:

A LISC Playbook Series

Opportunity Zones promise to drive billions—even trillions—of dollars in long-term investment into under-resourced urban and rural Census tracts across the country. The goal of this new tax incentive is to achieve a double bottom line: fueling inclusive local economies in targeted neighborhoods that benefit the

Step by Step Guide to Making Opportunity Zones:

- Sequencing steps to ensure success
- New ideas and suggested strategies
- Best Practices with real world examples

The first three publications are directed to:

Playbook #1 - Community Stakeholders – *due out late February*

Playbook #2 - Impact Investors

Playbook #3 - Impact Developers

See me for an Executive Summary of Playbook #1

Let Us Help

George Ashton
Managing Director,
Strategic Investments
202.739.9293
gashton@lisc.org

Karen Przypyszny
Managing Director,
Special Initiatives
312.697.6120
kprzypys@nefinc.org

Kevin Boes
President/CEO
New Market Support Corp.
312.697.6467
kboes@newmarkets.org