Forging Opportunity
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

National & 33 Local Offices

Programs & Lending

Regional Presence meets Financial Sophistication
Our Reach

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

2,000 Partners

3 National Affiliates

National Equity Fund
www.nefinc.org

New Markets Support Company
www.newmarkets.org

immito
www.immito.com

Office Locations

Atlanta, GA
Boston, MA
Buffalo, NY
Charlotte, NC
Chicago, IL
(Citizens Capital Fund, NMSC)
Cincinnati, OH
Denver, CO
(Detroit, MI
Duluth, MN
Frisco, TX
Fresno, CA
Foster City, CA
Ft. Myers, FL
Galveston, TX
Hartford, CT
Huntsville, AL
Indianapolis, IN
Jacksonville, FL
Kansas City, MO
Las Vegas, NV
Los Angeles, CA
Milwaukee, WI
Minneapolis/St. Paul, MN
New Orleans, LA
New York, NY
Newark, NJ
Peoria, IL
Philadelphia, PA
Phoenix, AZ
Pittsburgh, PA
Pondicherry, RI
Richmond, VA
San Antonio, TX
San Diego, CA
San Francisco, CA
Seattle, WA
Toledo, OH
Washington, DC
Since 1979

$18.6 billion invested
$56.2 billion leveraged

<table>
<thead>
<tr>
<th>376,000 homes</th>
<th>63 million square feet</th>
<th>$287 million</th>
<th>S&amp;P ‘AA’ Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Affordable homes built and/or preserved including:</strong></td>
<td><strong>Square feet of commercial, retail and community space, including:</strong></td>
<td><strong>Total Net Assets</strong></td>
<td><strong>LISC is the first CDFI to tap the general obligation bond market, with a $100 million issuance in 2017</strong></td>
</tr>
<tr>
<td>• Multifamily rental</td>
<td>• Early childhood centers</td>
<td>• Net worth has increased 48% in the past 4 years</td>
<td></td>
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<tr>
<td>• Supportive housing for special populations such as chronically homeless, LGBTQ, seniors and veterans</td>
<td>• Schools</td>
<td>• Closed on more than $1.6 billion of debt transactions with NO defaults</td>
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<tr>
<td>• Affordable homeownership</td>
<td>• Fields/recreational spaces</td>
<td>• Raised an average of $123 million annually in grants over the past 3 years</td>
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<tr>
<td>We also emphasize sustainability through green, healthy housing and transit oriented development.</td>
<td>• Healthcare centers</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Grocery stores</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Financial Opportunity Centers</td>
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</table>
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.
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 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

<table>
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<tr>
<th>Category</th>
<th>Value</th>
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<tbody>
<tr>
<td>Rural census tracts</td>
<td>1,858</td>
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<tr>
<td>Average poverty rate</td>
<td>31%</td>
</tr>
<tr>
<td>Average unemployment rate</td>
<td>14.4%</td>
</tr>
<tr>
<td>Average family income in OZ census tracts relative to area median income (AMI)</td>
<td>60%</td>
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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

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<tr>
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<th>LISC Deals in Opportunity Zones since 2008</th>
<th>NEF Deals in Opportunity Zones since 2008</th>
<th>NMSC Deals in Opportunity Zones since 2008</th>
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<tr>
<td></td>
<td>638</td>
<td>178</td>
<td>49</td>
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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

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.

90% 10%

QOF – Qualified Opportunity Zone Fund

QOP – Qualified Opportunity Property

Other Stuff

OR

QOB – Qualified Opportunity Business Operating Business that Owns Property

QOB – Qualified Opportunity Business Real Estate Only

AND

QOB – Qualified Opportunity Business Operating Business Only

5 Rule Test for QOB
1. 70% of Tangible Business Property located in an Opportunity Zone.
2. 50% of income for the business generated by activity in an Opp. Zone
3. No Sin Businesses
4. <5% of Value in Cash etc.
5. Substantially all intangible property must be used in the operations of the business.
**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.

90%  
10%

QOF – Qualified Opportunity Zone Fund

QOP – Qualified Opportunity Property  
Other Stuff

QOB – Qualified Opportunity Business  
Direct Real-Estate Investment

Indirect Real-Estate Investment

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)
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

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

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