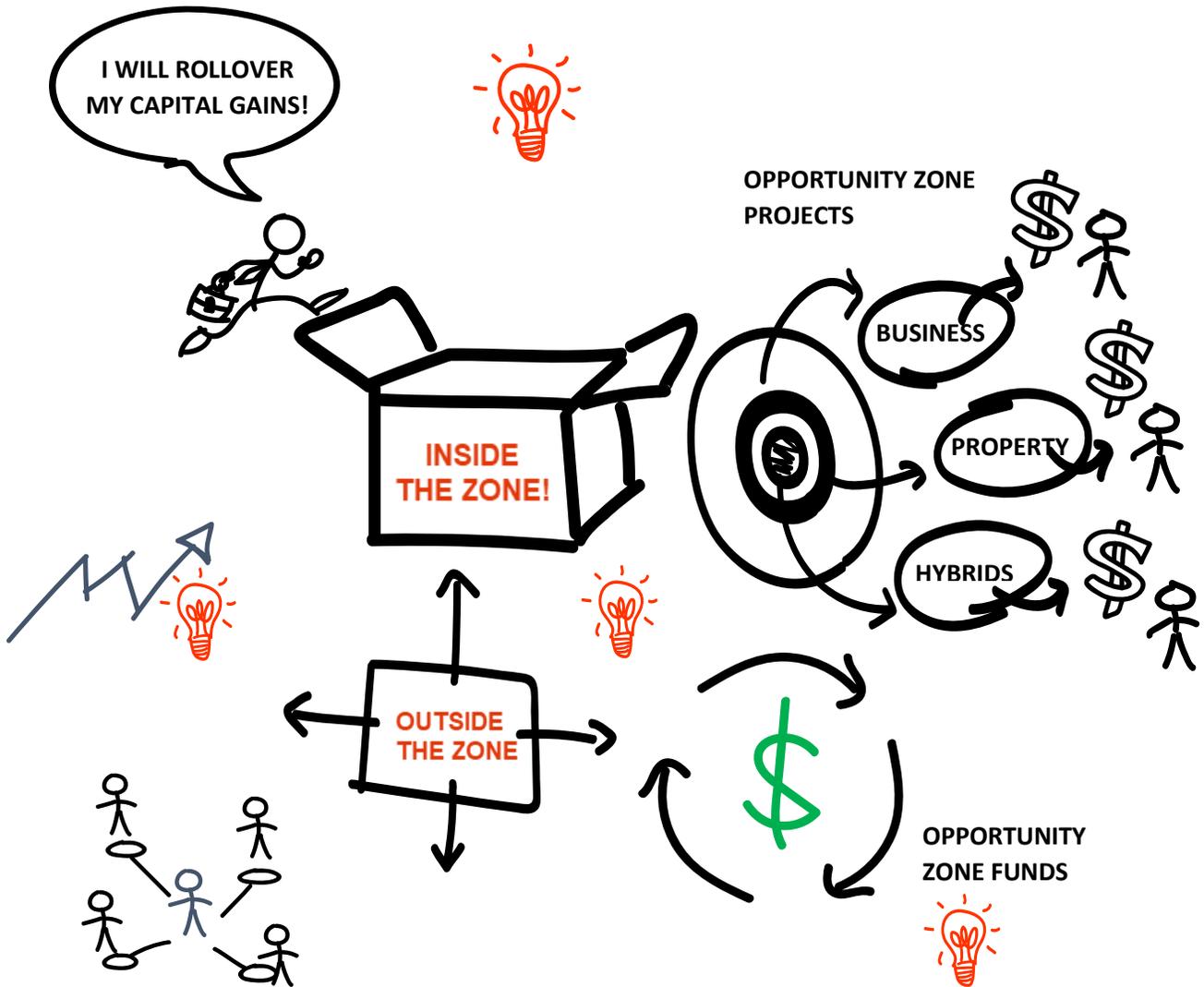


# OPPORTUNITY ZONES MEETUP

JULY 25, 2019

WORKFORCE HOUSING



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## GUIDE

This Guide is part of a series of publications developed to assist individuals, communities, businesses and property developers and Opportunity Zone investors in understanding how Opportunity Zone investments may benefit by rolling over capital gains into communities to address local challenges.

Video recordings of each Opportunity Zones Meetup may be found on the Karl Dakin channel of YouTube.

Guides and slide decks of the Opportunity Zones Meetup group may be found at:  
<https://www.DakinCapital.com/Opportunity-Zones/>

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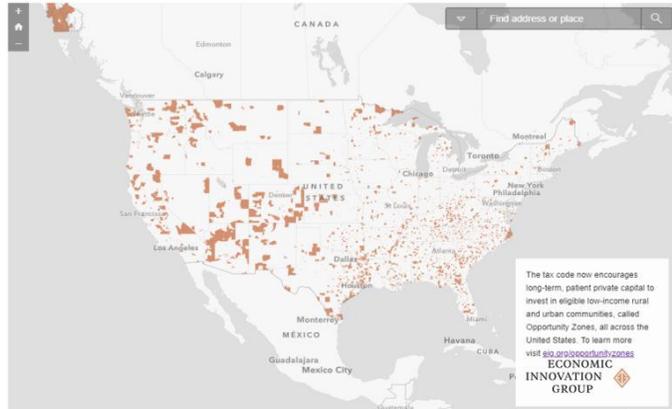
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## PART 1: OPPORTUNITY ZONES

The Tax Cuts and Jobs Act passed in December of 2017 authorized tax incentives for investments into businesses and properties located within designated geographic areas –Opportunity Zones. The incentives are intended to influence investors to provide capital to distressed economic communities to generate jobs and aid the local economies. The IRS is completing the rules and regulations governing Opportunity Zone investments, but the opportunity to invest in and obtain investments within an Opportunity Zone is available now.



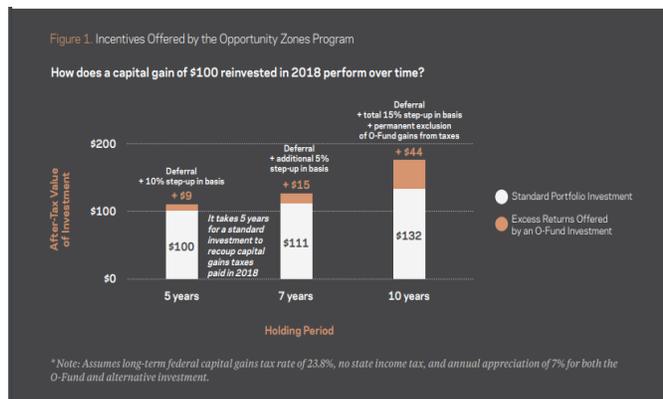
An investor who holds capital assets (stocks, real estate and other forms of property) with an appreciated value over the original purchase price may sell those assets and roll over their gains within 180 days into one or more Opportunity Zone Funds. The Funds re-invest the money into Opportunity Zone Businesses and/or Properties. The payment of taxes on the capital gains is deferred until the earliest of 2026 or the date when an investor sells their investment in the Fund. If an investment in a Fund is held for 5 to 7 years, the tax liability is decreased. The greatest benefit is that if the investor leaves their investment in the Fund for 10 years or more, all gains on the Opportunity Zone Fund investment are tax free.

Analysis by different investment advisors project that an investment in an Opportunity Zone Fund will earn 3% more money after taxes than an investment in a standard stock portfolio. Investments in successful businesses and property developments will realize even greater tax savings.

An Opportunity Zone Fund may be structured as a single investor, single purpose fund where an

investor places their money to place their money with a specific Opportunity Zone Business or Property. A Fund may also be a multiple investor, single or multiple purpose fund in the form of a private equity or hedge fund. A Fund may participate in a syndicate of Funds on large projects. A Fund may also be collaboration with local, state or federal government agencies or districts as part of a community improvement project.

All existing laws governing the sale and purchase of securities apply to investment in Opportunity Zone Funds with standard restrictions on the participation of non-accredited investors, publication of the offerings and regulatory reporting.



8,700 Opportunity Zones have been certified in each of the fifty States and United States territories. A national map of Opportunity Zones and the history of the legislation may be obtained from the Economic Innovation Group at: <https://eig.org/opportunityzones>. Additional information with local maps and projects may be obtained from the economic development offices of each state. Local communities have been advised to create a 'prospectus' of Opportunity Zone investment opportunities within their local areas.

As proven by the JOBS Act and investment crowdfunding, a business seeking investment through an Opportunity Zone Fund must recognize that the establishment of a new capital source does not automatically result in an investment. An investor will not simply make an investment because of the new tax advantages. To gain the greatest benefits, an investment in an Opportunity Zone Fund is a long term investment that requires 'patient capital'. Many investor candidates may be unwilling to place their money into a business or property development for this period.



The Opportunity Zone Business or Property Developer must be 'ready to receive capital' by developing a capital campaign where it clearly communicates its potential to qualified investor candidates that have a high interest in the success of the Business or the Property. This Opportunity Zone Business or Property may be able to obtain money from a large Opportunity Zone Fund or it may be necessary for it to create its own Fund as a pass-through vehicle for its own use.

An Opportunity Zone Business or Property must compete for investment money by making itself more attractive than other investment opportunities. In addition to all the common activities that may make an investment more attractive, some actions that may enhance the appearance of the opportunity and reduce the perception of risk include:

- Investments that include land, buildings, equipment or other capital assets that serve as collateral
- Quantification of social metrics representing 'impact' benefits to a community or a cause
- Joining with other Opportunity Zone Businesses or Properties where the investor is investing into a pool of investments
- Participating in an economic development project where part or all the risk may be shifted to a government agency, foundation or other organization



Interest in Opportunity Zones is growing quickly as investors with capital gains seek to reduce their taxes and businesses, property developers and communities position themselves to raise money from this source. A variety of programs are being launched to help make this type of investment happen.

## PART 2: WORKFORCE HOUSING

### A Shortage of Workforce Housing

In discussions with local communities within Opportunity Zones, nearly all have a housing shortage. This shortage is particularly serious for workers making lower wages.

The lack of workforce housing is an impediment to community improvement and Opportunity Zone investment.

For every 100 extremely low income households, there are [only 29 adequate, affordable, and available](#) rental units.



### Affordable Housing

Historically, new housing targeted to people in low incomes is typically funded through 'Affordable Housing' programs where the federal government provides the Low-Income Housing Tax Credit.

[https://issuu.com/cohnreznick/docs/cr\\_lihtc\\_dec2015](https://issuu.com/cohnreznick/docs/cr_lihtc_dec2015)

Unfortunately, Affordable Housing has limits which has resulted in diminishing benefits. Tax credits are only available where individuals can rent housing at no more than 30% of their income and individuals make no more than 60% of the Average Median Income (AMI).



### Impossible

When the price of housing rises quicker than wage rates, developers will find themselves in a position where the maximum rents they can charge will not cover costs of land acquisition, construction and provide any rate of return to investors.

Efforts have been made to lower costs through local government grants of land, charitable support and additional money subsidies, but even these efforts do not work in fast climbing real estate markets.

<https://apps.urban.org/features/cost-of-affordable-housing/>



## Worker Ownership

One of my complaints about Affordable Housing is that nearly all business models do not enable the worker to buy the residence and engage in wealth building. It is typical for this housing to be rented with the worker giving up 30% of the income with nothing else to show for it. Individuals with low income are placed in a position where they cannot get ahead. Economically, people in low incomes are kicked down road. Clearly, Affordable Housing is better than no housing, but new solutions are needed.



## Down Payments

Even where Affordable Housing enables work ownership or in other home ownership programs, the additional challenge is the worker having enough money to make the down payment. A worker is paying 30% to 50% of their income toward rent has an extremely hard time saving aside money to make a home purchase.

There are several programs that address this challenge. Veterans may borrow 100% of a home loan. Other workers may qualify for programs that reduce the down payment requirement or contribute in some way to making the down payment.



## Gentrification

A commonly voiced complaint about Opportunity Zone investing is that it leads to 'gentrification' – the displacement of local people that cannot afford higher housing prices. It is inevitable that investment within an Opportunity Zone will lead to greater economic activity. Directly or indirectly, economic activity leads to higher property values. Where a person owns their own home, this results in higher property taxes. Workers may earn matching wage increases resulting in smaller savings. Individuals on fixed incomes, including retirees may no longer be able to pay the taxes. Workers who are renting will see rents increased as landlords pass through the taxes.

In certain situations, land is developed or re-developed with the intent of selling to individuals with substantially greater incomes. Property owners may benefit from increase property values, but still maybe forced to sell. Renters may have no choice except to move to a new residence that is less expensive to rent but a greater distance from work.



## **Worker Shortage**

Even when a community succeeds in the start of a new business or the relocation of an existing business, the business may not be able to recruit needed workers if there is a shortage of housing. The lack of housing becomes a constraint on the benefits of Opportunity Zone investing.

Employers that are considering relocation to qualify for Opportunity Zone investment should determine the availability of housing for existing and new workers.



## PART 3: EMPLOYER PARTICIPATION IN WORKFORCE HOUSING

participation in workforce housing is not new. The 'Company Town' was popular in the late 1800's and early 1900's where a need existed to provide workforce housing.

<https://www.smithsonianmag.com/travel/americas-company-towns-then-and-now-180956382/>

These company provided benefits often came with an unreasonable and mandatory price tag that resulted in businesses making bad profits off their employees.

### New Model

In building on past work in designing equity sharing housing models for artists and study of elderly housing issues, I have created a new model for Opportunity Zone investment that requires the key participation of local employers.

My goal is to financially enable private sector funding of workforce housing without the need for or dependence upon government subsidies (although this model will benefit from this assistance). Toward this outcome, I seek to offer investors with a reasonable assurance of a minimal level of return on their investment in order to attract their investment. In addition, I want to enable workers to build wealth and participate in the economic revitalization of their communities. To achieve this result, employers need to benefit as well. I have worked to address the need for housing to enable business expansion, allow businesses to profit in the appreciation of the property appreciation and do so with no cash investment (although this model will benefit from investment from employers).



The successful completion of this model involves the following steps:

1. OZB identifies suitable community
2. OZB conducts survey of workforce housing
3. OZB conducts survey of local employers
  - a. Direct contact
  - b. Local economic development agency
  - c. Local chamber of commerce
  - d. Other
4. OZB proposes employer participation in workforce housing project to qualified local employers
5. OZB obtains employer(s) commitments
  - a. Commitment to buy property at end of OZ investment
    - i. Price may be fixed resulting in fixed ROI to investors
    - ii. Price may be variable – tied to market rates – resulting in variable outcome
  - b. Commitment to arrange rental of housing by employees – guaranteed occupancy throughout term
  - c. Commitment to establish employee benefit program for housing rent to own
  - d. Commits to act as guarantor of project mortgage
6. OZB secures option to acquire property

7. OZB arranges contractors for development and operation of property
8. OZB completes business model, plan and offering documents
9. OZB establishes OZ Fund
10. OZB raises investments into OZ Fund
11. OZ Fund deploys funds into OZB (portion of project budget) for portion of ownership in OZB
12. OZB enters into commercial mortgage (remainder of project budget)
13. Employer guarantees commercial mortgage
14. OZB acquires property
15. OZB builds workforce housing
16. OZB leases workforce housing to employees of employers
  - a. Rate is set at cost + (utilities, management fees, including interest on the commercial mortgage, but not any principal) on property and construction costs
  - b. Employer arranges rentals as part of employee benefit program
17. OZB earns minimal profits
18. OZB distributes profits to Fund
19. At end of 10-year term, OZB sells housing to employer at set price
  - a. Includes investment of Fund
  - b. Includes target ROI for investors
  - c. Includes income to OZB
20. OZB buys out Fund's ownership in OZB with proceeds from sale
21. Fund distributes monies to investors and Fund is closed
22. Investors recognize capital gains
23. IRS waives taxes capital gains
24. Employer sells housing to employees
  - a. Employer pays down payment on housing
  - b. Employer may set sales price above price paid to OZB

### **Role of the OZ Business**

In the Employer Participation Model, the Opportunity Zone Business will make no significant changes in its business model. The OZ Business will acquire property, put together a management team, raise OZ money and then construct and rent residential properties.

The Model should work with single family, multi-family and mixed-use projects of any size from a single residence to hundreds of residences.



### **Employer Purchase of Housing**

Within this model, the Employer will purchase the developed workforce housing after the 10-year term of the Opportunity Zone investment term has been fulfilled.

The Employer will agree to pay a set price. The price may be the return of the investor's funding plus a return on investment that will guarantee the investors a fixed rate of return. A more sophisticated model would be for the Employer to pay a price that will vary with the market value, but still assures the investor a minimum rate of return while the Employer buys the property at a price below the market that enables the Employer to make the down payment for its employees and still net a profit.



With a contractually provided exit and a guaranteed minimum rate of return, the offer will be more attractive to investors when comparing with other investments where the potential of a buyer and a profit are uncertain.

The Employer will be at risk that property values may not increase enough to pay the price guaranteed to investors.

### **Employer will Guarantee Commercial Mortgage**

The OZ Business will use funding from Opportunity Zone investors to purchase the property and construct the residences. However, it is expected that the OZ Business will borrow money from a commercial lender and arrange a commercial mortgage. Depending upon the mortgage interest rates and the guaranteed returns to investors, the percentage of the entire project that is funded with a mortgage may vary greatly.

The Employer will guarantee the payment of the mortgage without any payment of cash toward the down payment. It is assumed that the Employer will take a position second to that of the lender and be subordinated to the lender on any foreclosure proceeding.



The Employer is at risk if there is a default on the mortgage, however the rents paid by the Employer's employees should cover costs of operations and administration and part or all the interest on the commercial mortgage. In addition, the enhance value of the property acts as security to the Employer as well as to the commercial lender.

### **Employer Guarantees Rental of Housing**

The Employer will arrange for selected employees to rent the new workforce housing from the OZ business.

The rental rate is projected to be below market – limited to costs of utilities and administration as well as the rent on the commercial mortgage.

In the event of a vacancy – a temporary break in payment of rents – the Employer will make the rent payments.



### **Employer Purchase and Re-sale of Properties**

Upon fulfillment of the 10-year term, the Employer will buy the properties from the OZ Business at the agreed upon price.

turn, the Employer will sell the properties to selected employees at market prices. The Employer will make the down payment on behalf of the selected employees – enabling the employees to move from renters to owners. This action represents a benefit to the employee that should be part of a larger employee benefit program.



Under good market conditions, the Employer will pay the agreed upon price to the OZ business, make the down payments on behalf of its employees and be left with a profit.

### **OZ Business Additional Activities**

In order to engage Employers in a workforce housing project, the OZ Business should set the stage for raising money into an OZ Fund.

The OZ Business must first verify the existence of a housing shortage and its impact on local businesses. The engagement of Employers in a workforce housing project is dependent upon the Employers needing housing to succeed.



The OZ Business should identify those Employers who will be most impacted by a housing shortage. This may be accomplished by talking directly with the management of large and fast-growing businesses. The search may be aided by talking with local economic development agencies, chambers of commerce and commercial real estate brokers who will also know of businesses planning to relocate into the area.

The OZ Business will prepare a special offering proposal to Employers that clearly and quickly describes the commitments of the Employer and the corresponding benefits within a simple business model. This is a sales document that is asking an Employer to do things it would not ordinarily do, so it must be well thought out and professionally pitched.

The Employers should be asked to make a written commitment. Initially, this may take the form of a letter of intent that may be converted to a formal agreement upon successfully raising money into the OZ Fund.

## PART 4: FORUM

The concept of Employer participation in workforce housing may be modified and possibly enhanced through several additional activities.

### Shared Ownership

One extension of the basic model would be to hold all the workforce housing as a single real estate asset instead of selling properties individually. This approach would simplify ownership and reduce costs associated with transfer of the property – title costs, broker fees, etc.

Employees would receive a security interest in the total properties while also being a tenant with a right to use a single selected property.

This approach may also provide greater flexibility in allowing an Employer to work with different employees who have different preferences.



### Fix and Flips

A variation on building new workforce housing is to buy and improve existing properties.

This approach may require less capital and may work better within established communities that oppose new construction and fear gentrification.

This approach should take advantage of any programs that support energy conservation and alternative power generation, thereby reducing the operating costs.



### Factory Houses

One approach to lowering the cost of workforce housing is to buy factory housing instead of a 'sticks and bricks' construction with higher labor costs.

This approach commonly enables quicker completion of construction.



## **Other Options**

I am certain that there are multiple ways to improve upon this business model. I welcome any suggestions. If you put together an Opportunity Zone workforce housing project, please share that information.

## RESOURCES

### **State of Colorado**

The State of Colorado has launched a matchmaking tool on the website for the Office of Economic Development and International Trade:

<https://www.colorado-invest.com/>

The State of Colorado also provides information on a variety of resources regarding Opportunity Zones including an interactive map of all Zones within the State.

<https://choosecolorado.com/opportunity-zones/>

### **Economic Innovation Group**

This organization helped engineer the tax legislation authorizing Opportunity Zones. This site has a national interactive map of Opportunity Zones.

<https://eig.org/opportunityzones>

### **Internal Revenue Service**

Frequently Asked Questions - <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>

Proposed Regulations - <https://www.irs.gov/newsroom/treasury-irs-issue-proposed-regulations-on-new-opportunity-zone-tax-incentive>

### **Opportunity Zones Meetup**

Programs, video recordings and guides on different Opportunity Zone projects and challenges with links to other sources of information.

<https://www.meetup.com/Opportunity-Zones/>

## SPONSORSHIP

This Guide is intended to supplement the Opportunity Zones Meetup events with additional information. I appreciate all feedback on how to make this publication of greater value to the Members of the Opportunity Zones Meetup group.

Sponsorship is sought to cover the cost of presenting, recording, broadcasting and promoting the Opportunity Zones Meetup. A business, government organization, or foundation may sponsor a single event, a group of events or the entire 2019 program. Sponsors will be recognized at the events, in the videos and guides and in other promotional efforts.

With sponsorship, I am interested in expanding the Opportunity Zones Meetups to host events in additional cities across the United States.

Questions concerning this Opportunity Zones Meetup Guide, sponsoring the Opportunity Zones Meetup or hosting Opportunity Zones Meetups in other cities should be directed to:

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## SHOWCASE

Opportunity Zone Funds, Properties and Businesses are invited to make a presentation at an upcoming Opportunity Zones Meetup. Presenters have five minutes to showcase their opportunity which is included in the video recording of the event as well within this Guide as a handout. To arrange a presentation of your opportunity, contact Karl Dakin at Dakin Capital LLC: [kdakin@dakincapital.com](mailto:kdakin@dakincapital.com)

## CASE STUDY

The Opportunity Zones Meetup is working to secure examples of Opportunity Zone projects with all documents to be published as a catalog. If you have an Opportunity Zone project and would like to share it, please contact Karl Dakin at Dakin Capital LLC: [kdakin@dakincapital.com](mailto:kdakin@dakincapital.com)

### Sugar Beet District Project

Karl Dakin is a principal in NZ Development LLC which plans to conduct a capital campaign to raise money into the Sugar Beet District Opportunity Zone Fund which will deploy funding into NetZero Colorado PBC for the development of the Sugar Beet District Project.

The total Sugar Beet District Project will encompass over 50 acres within Fort Collins, Colorado within an Opportunity Zone. As envisioned, the Sugar Beet District Project will include:

- Hotel and Spa
- Craft Beer
- Distillery
- Indoor Agriculture
- Office Space
- Workforce Housing

The workforce housing will include single family residences as well as condominiums mixed with commercial buildings.

NZ Development is now identifying prospective employers that may participate in Opportunity Zone funding of workforce housing. Candidates include:

- NZ Development LLC
- Key contractors and vendors for the Sugar Beet District
- All tenants of the Sugar Beet District
- Growing businesses in Fort Collins

The Employer Commitment Agreement will include the following key terms:

- Employer will buy \_\_\_\_\_ properties (as identified) from OZ business on date \_\_\_\_\_ (10+ years) at a set price of \_\_\_\_\_ (original investment + ROI or original investment + ROI + a percentage of market appreciation)
- Employer will guarantee commercial mortgage of \$\_\_\_\_\_ representing \_\_\_\_\_ % of the total project budget to acquire property and construct workforce housing and take a secured position subordinate to the lender
- Employer will arrange for its employees to rent \_\_\_\_\_ properties at a monthly rental rate that is equal to \_\_\_\_\_% of the combined operating and administrative expenses – excluding principal and interest on commercial mortgage
- Upon acquisition of properties, Employer will re-sell properties to employees at the then existing market price (keeping the difference between the price paid to the OZ business and the resale price) and making the down payment on each property as part of an employee incentive program