

# Opportunity Zone Community Meeting



CITY OF OAKLAND



# Today's Agenda

- |                     |  |
|---------------------|--|
| 10:00 AM - 10:05 AM | <b>Introduction</b><br>Monica Edwards, City of Oakland   |
| 10:05 AM - 10:25 AM | <b>Race and Equity</b><br>Darlene Flynn, City of Oakland   |
| 10:25 AM - 10:55 AM | <b>The Basics on Opportunity Zones</b><br>Monica Edwards, City of Oakland  |
| 10:55 AM - 11:15 AM | <b>Qualified Opportunity Zone Structures</b><br>Spencer Durden, KPMG   |
| 11:15 AM - 11:30 AM | <b>Clean Energy and EZOZ.org</b><br>Jon Bonanno, California Clean Energy Fund  |
| 11:30 AM - 12:15 PM | <b>Business and Real Estate Case Study</b><br>Craig Jones, Uncle Willie's BBQ & Fish<br>William Jones, Uncle Willie's BBQ & Fish<br>Ivan Jersky, CoSyn Development |
| 12:15 PM - 12:45 PM | <b>Real Estate Cooperative Case Study</b><br>Donna Smithey, Shadetree  |
| 12:45 PM - 1:00 PM  | <b>Closing Remarks and Questions</b><br>Monica Edwards, City of Oakland  |



# Meet Our Presenters

**MONICA EDWARDS**

Chief Opportunity  
Zone Officer  
City of Oakland

**DARLENE FLYNN**

Director of Race and  
Equity  
City of Oakland

**JON BONANNO**

Chief Experience  
Officer  
California Clean  
Energy Fund & New  
Energy Nexus

**SPENCER DURDEN**

KPMG

**CRAIG JONES**

Uncle Willie's BBQ  
& Fish

**WILLIAM JONES**

Uncle Willie's BBQ  
& Fish

**IVAN JERSKEY**

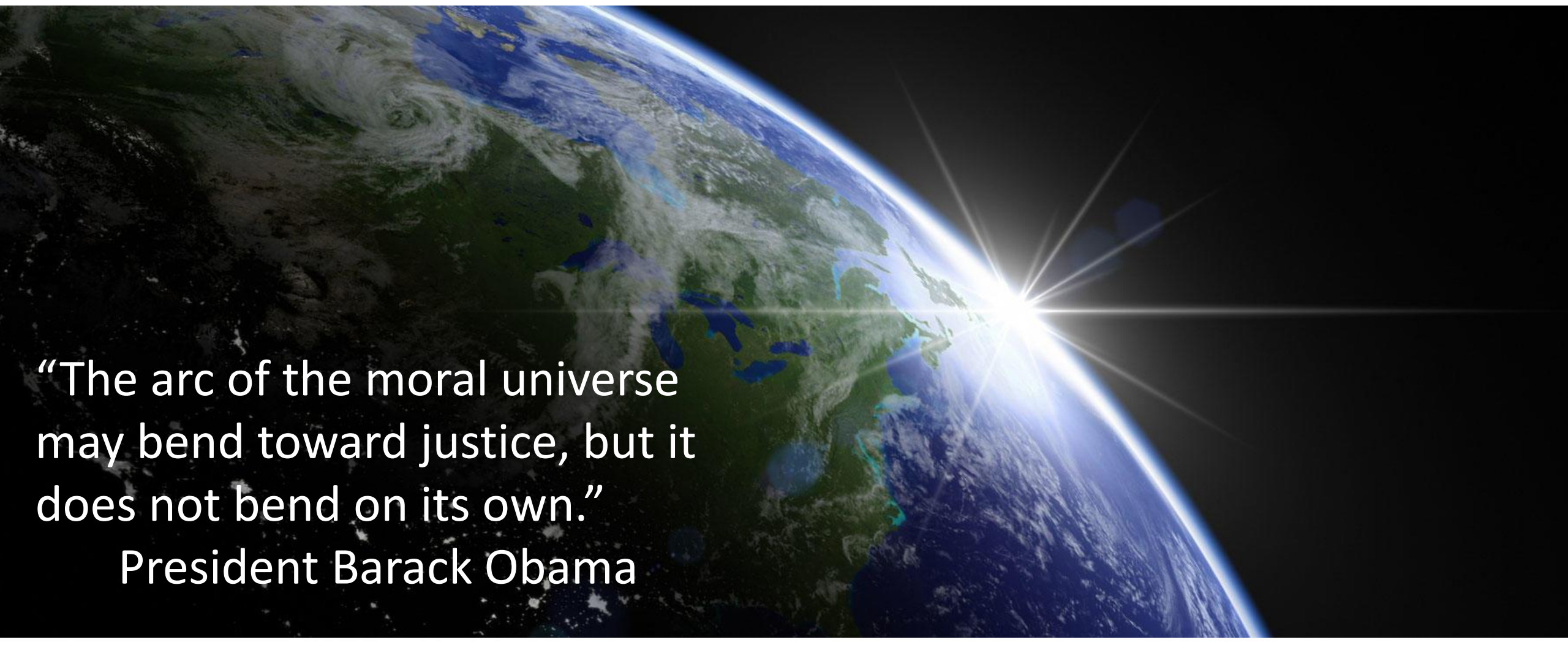
CoSyn Development

**DONNA SMITHEY**

Shadetree



# Implementing Racial Equity



“The arc of the moral universe  
may bend toward justice, but it  
does not bend on its own.”

President Barack Obama



**Vision:** To create a city where racial disparities have been eliminated and racial equity has been achieved.

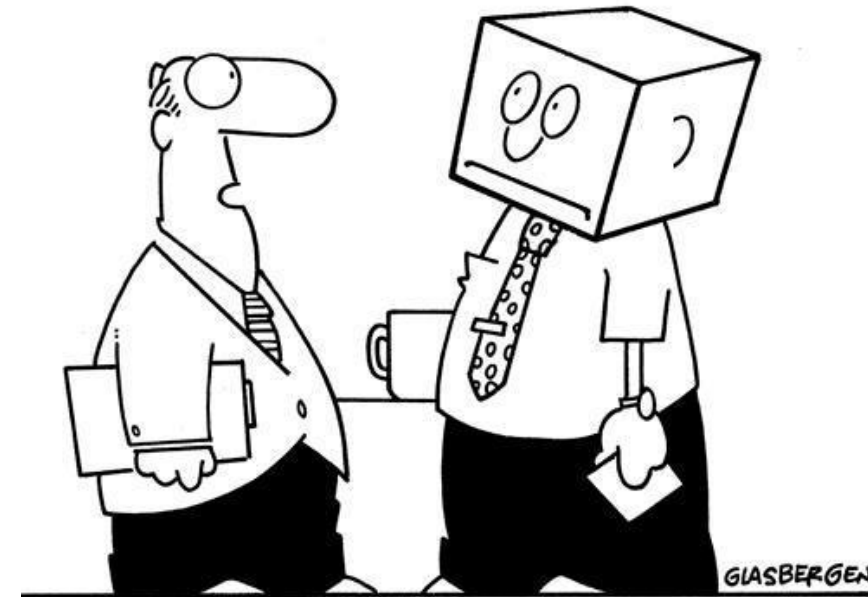
**Objectives:**

- Identify and eliminate systemic causes of racial disparities in City Government.
- Promote inclusion and full participation for all residents of the City.
- Reduction of race-based disparities in our communities.



# Working Assumptions

- Race matters. Almost every indicator of well-being shows troubling disparities by race
- Disparities are often created and maintained inadvertently through policies and practices that contain barriers to opportunity
- It's possible-- and only possible-- to close equity gaps by using strategies determined through an intentional focus on race
- If opportunities in all key areas of well-being are equitable, then equitable results will follow
- Given the right message, analysis, and tools, people will work toward racial equity



**"Thinking outside of the box is difficult  
for some people. Keep trying."**



# What is Equity?



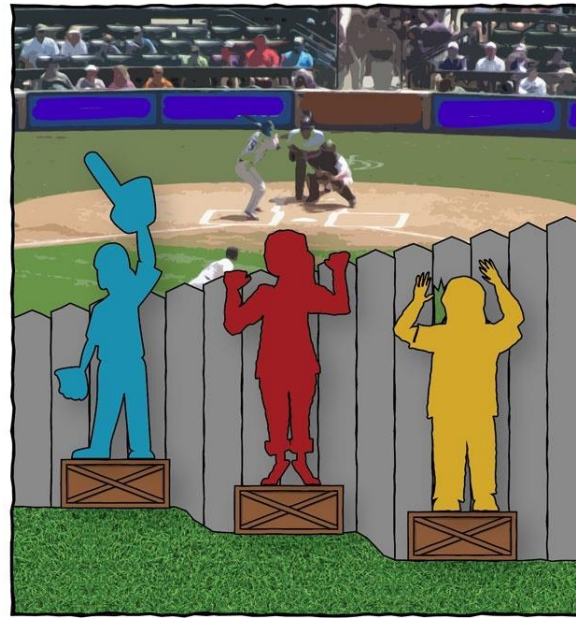
**EQUALITY**



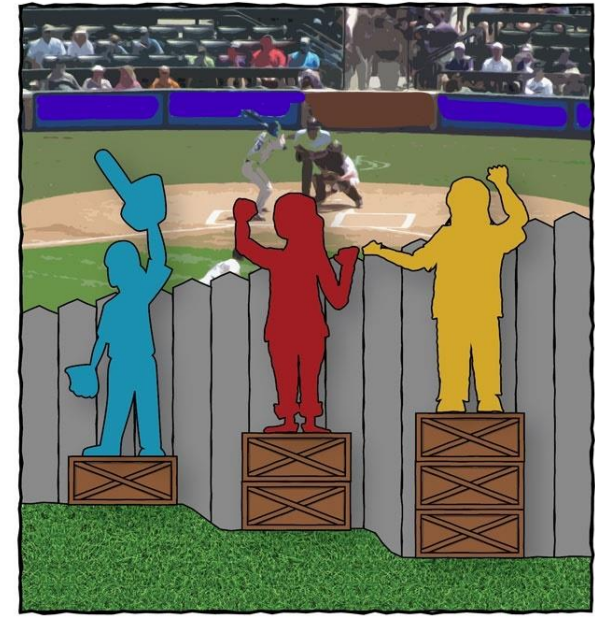
**EQUITY**

## Eq-ui-ty (*ek-wi-tee*), noun

- Just and fair inclusion.
- An equitable society is one in which all have access to what they need to participate and prosper.
- The goal of equity work is to create conditions that allow all to reach their full potential.
- In equitable conditions race, or other social markers would not predict differences in life outcomes.



EQUALITY



EQUITY



# Systemic and Institutional Racism



A pattern of social institutions; such as governmental organizations, schools, banks, and courts of law, perpetuating negative treatment toward a group of people based on their race. Institutional racism leads to inequality in opportunity and inequity in life outcomes.

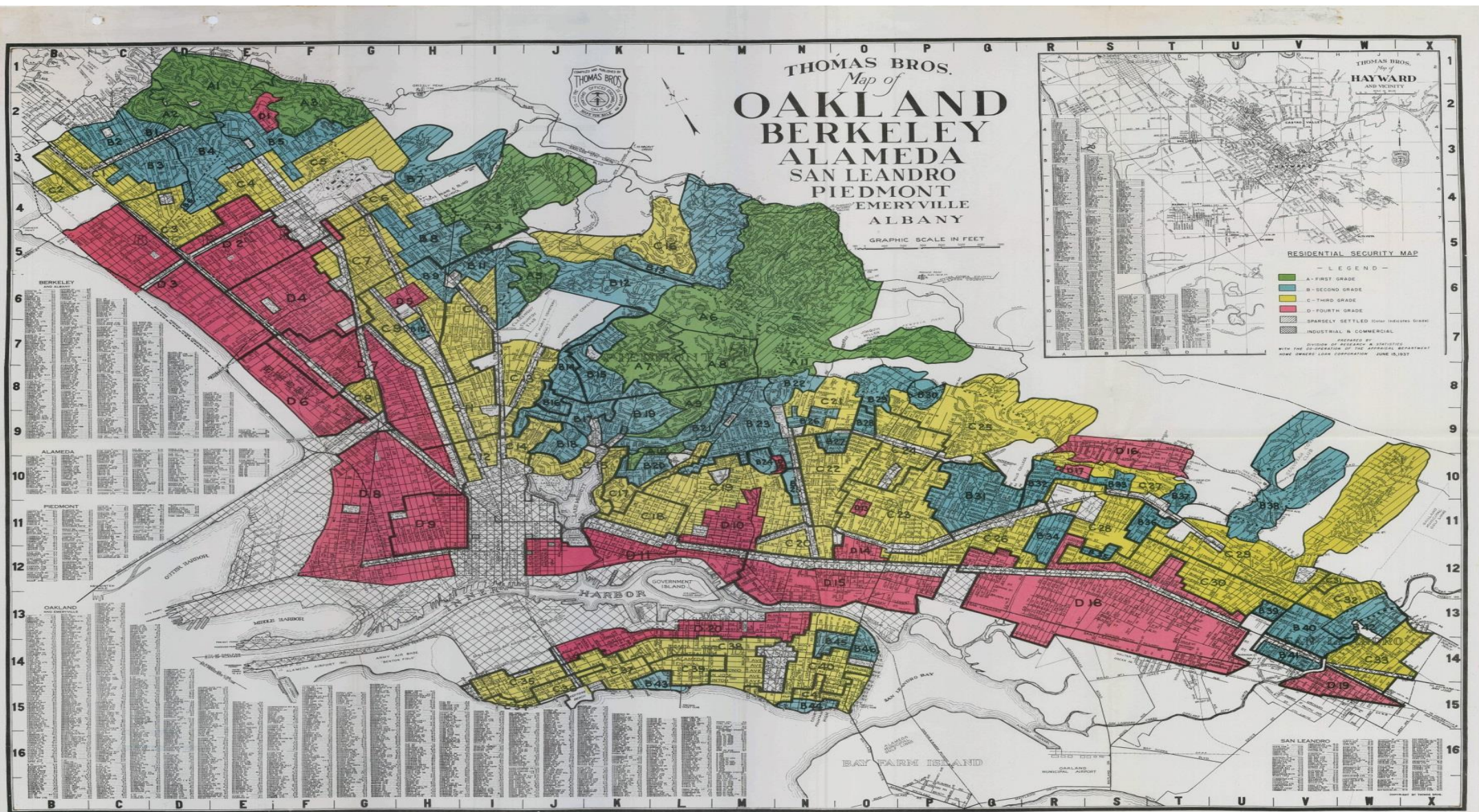


**YouTube – Why are Cities Still so Segregated**

<https://www.youtube.com/watch?v=O5FBJyqfoLM>



# Address Inequity Incribed in Geography





# Racial Disparities Resulting from Redlining

## Opportunities in OAKLAND

SOURCE 2013-17 AMERICAN COMMUNITY SURVEY 5-YEAR ESTIMATES

AREA	WHITE	BLACK	ASIAN	LATINO	POVERTY RATE	PER CAP INCOME	RENTERS	BA OR HIGHER	SOME COLLEGE	NO HS DEGREE	UNDER 18 Y/O	OVER 65 Y/O
O-ZONES	14%	29%	13%	39%	29%	\$21,057	74%	23%	27%	30%	24%	9%
OAKLAND	27%	24%	16%	27%	19%	\$35,847	60%	41%	24%	19%	20%	13%
COUNTY	32%	11%	29%	23%	11%	\$39,925	47%	45%	25%	12%	21%	13%
METRO	40%	7%	25%	22%	10%	\$47,011	46%	47%	25%	11%	20%	14%
CALIFORNIA	38%	6%	14%	39%	15%	\$31,773	45%	33%	29%	18%	23%	13%
US	61%	12%	5%	18%	15%	\$30,088	36%	31%	29%	13%	23%	15%





# PolicyLink - Lifting Up What Works

- **Equitable growth.** Opportunity Zones should leverage tax incentives to create good jobs, increase economic security and mobility, and eliminate the racial wealth gap. Projects in the zones should result in jobs that provide wages that support a dignified standard of living, full benefits and workers rights, and safe and healthy working conditions. Developers and investors of color should have access to contracting opportunities in the zones.
- **Development without displacement.** In addition to bringing economic opportunity and vitality to disinvested communities, development in Opportunity Zones should foster greater housing affordability and security for families most at risk of displacement, including low-income households and households of color.
- **Healthy communities of opportunity.** Investments should drive equitable growth and prosperity for current low-income residents and communities of color within the zones. Projects should increase services available to vulnerable populations such as affordable transportation options, health-care facilities, healthy food retail, and quality education services. (<https://www.policylink.org/opportunityzones>)

# Policy Link Recommendations

1. Advocate for equitable development in Opportunity Zones, via letters to local/state government, and the U.S. Treasury.
2. Promote a pipeline of projects for investment that can deliver equitable growth, development without displacement, and healthy communities of opportunity.
3. Engage with local officials and investors to create an equity assessment to understand the benefits and harms of investments proposed for each zone. Advocates can use the results of the assessment to hold investors and local and state officials accountable for prioritizing projects that deliver on the aforementioned outcomes.



# Process Design for Equitable Outcomes

Step 1

**Name the desired future condition** – *All residents of the City of Oakland are economically secure and living in thriving, healthy communities (begin with the end in mind).*

Step 2

**Use disparity data to understand current conditions** – *African American, Indigenous, Latinos and some Asian groups over represented in poverty, unemployment, unsheltered, living with poor health outcomes and shorter life expectancy.*

Step 3

**Work with the impacted community** - *to complete a root cause analysis to deepen understanding of the problem, and to determine what program elements and partnerships are needed to respond comprehensively.*

Step 4

**Design equity approaches that remove barriers, with rigorous performance measures** – *aim to address root causes of disparities and to remove barriers to access.*

Step 5

**Repeat Steps 2 - 5 as needed** – *in a continuous improvement loop until desired future conditions from Step 1 are achieved.*

# Examine Strategies for Elements that Impact Racial Disparities

1. What is the intended racial equity impact of this proposal?
1. What specific barriers, or access issues related to disparities does this proposal address?
2. How were communities most impacted by racial disparities involved in identifying/vetting this strategy?
3. What benchmarks/measurements could be used to track progress toward improving outcomes for those most impacted by disparities?
4. How will we know that groups most impacted by racial disparities are better off as a result of this program/proposal?



# Prioritize Proposals that Advance Equity

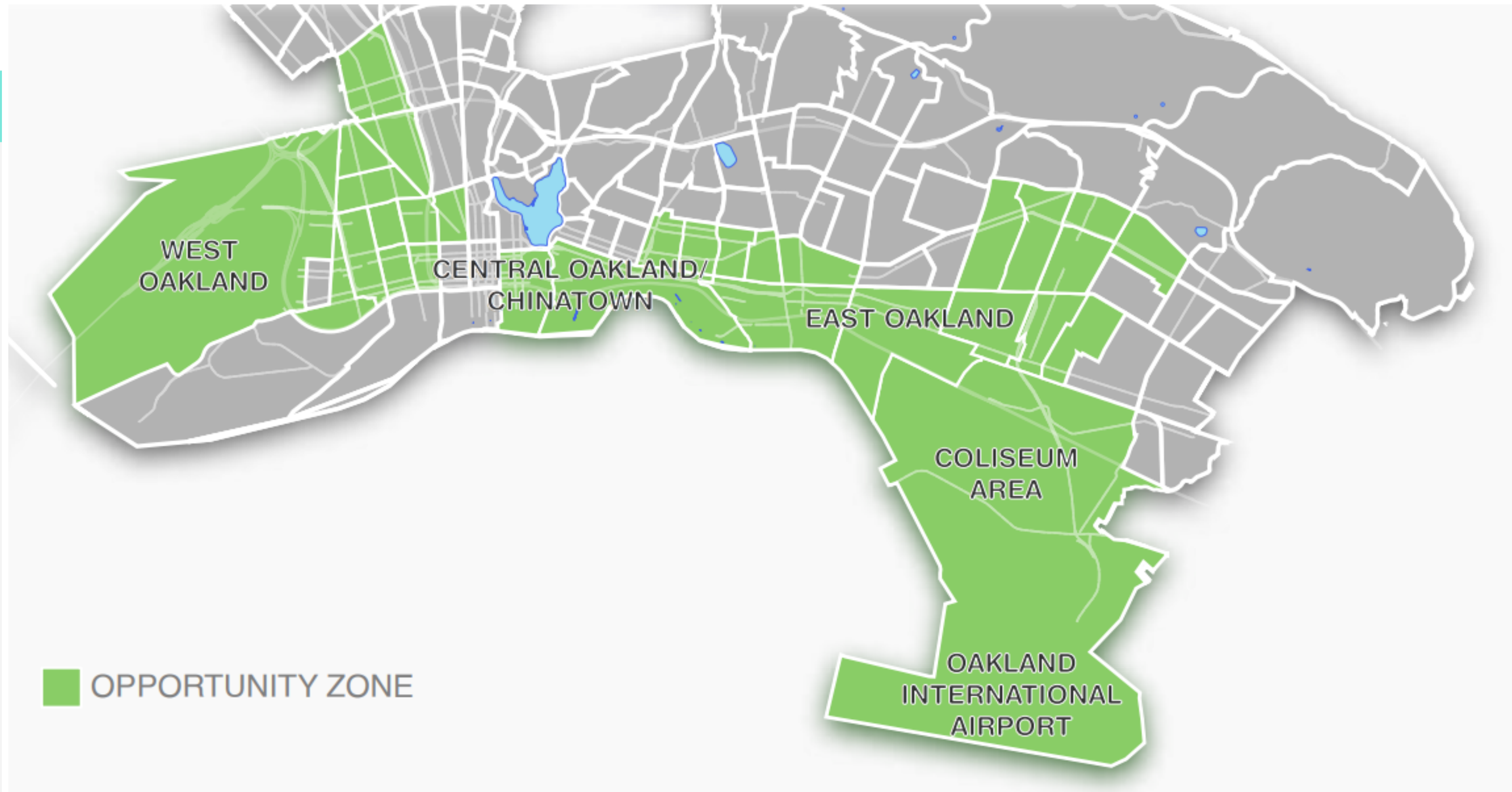


- Intentional focus on closing disparities
- Working with impacted communities to identify and address root causes
- Increasing access to opportunity
- Improving outcomes for those most impacted by disparities



# The Basics of Opportunity Zones

# Map of Oakland's Opportunity Zones







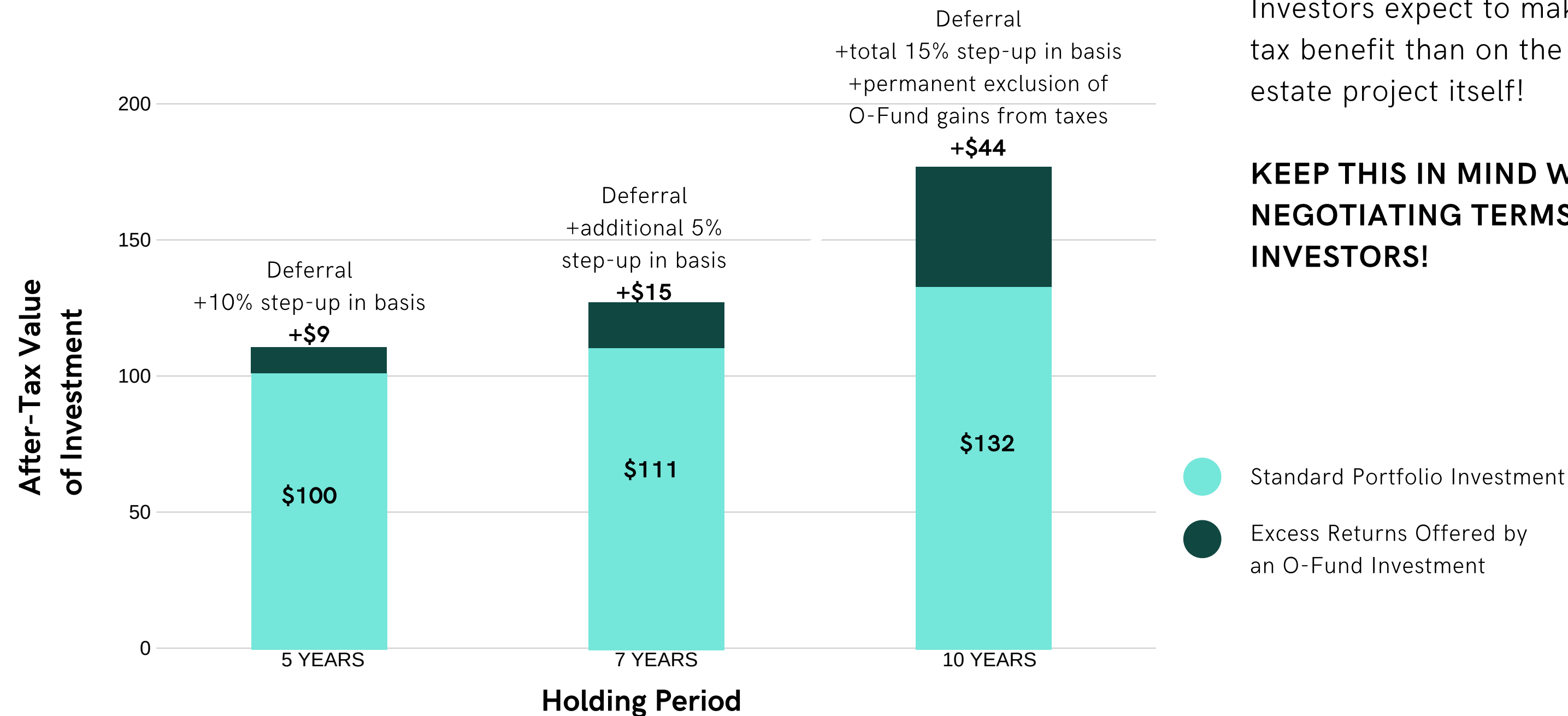
# Overview of Opportunity Zones

- Federal program to bring investment into Opportunity Zones, low-income census tracts
- Oakland has 30 Opportunity Zones
- Investors who reinvest their capital gains into Qualified Opportunity Funds receive the following benefits
  - reducing capital gains taxes by 10% if the investment is held for 5 years
  - reducing capital gains taxes by 15% if the investment is held for 7 years
  - waiving taxes on capital gains if the investment is held for at least 10 years

# OZ Benefits to Investors

If you've been waiting to sell because of the tax bill...

How does a capital gain of \$100 reinvested in 2018 perform over time?



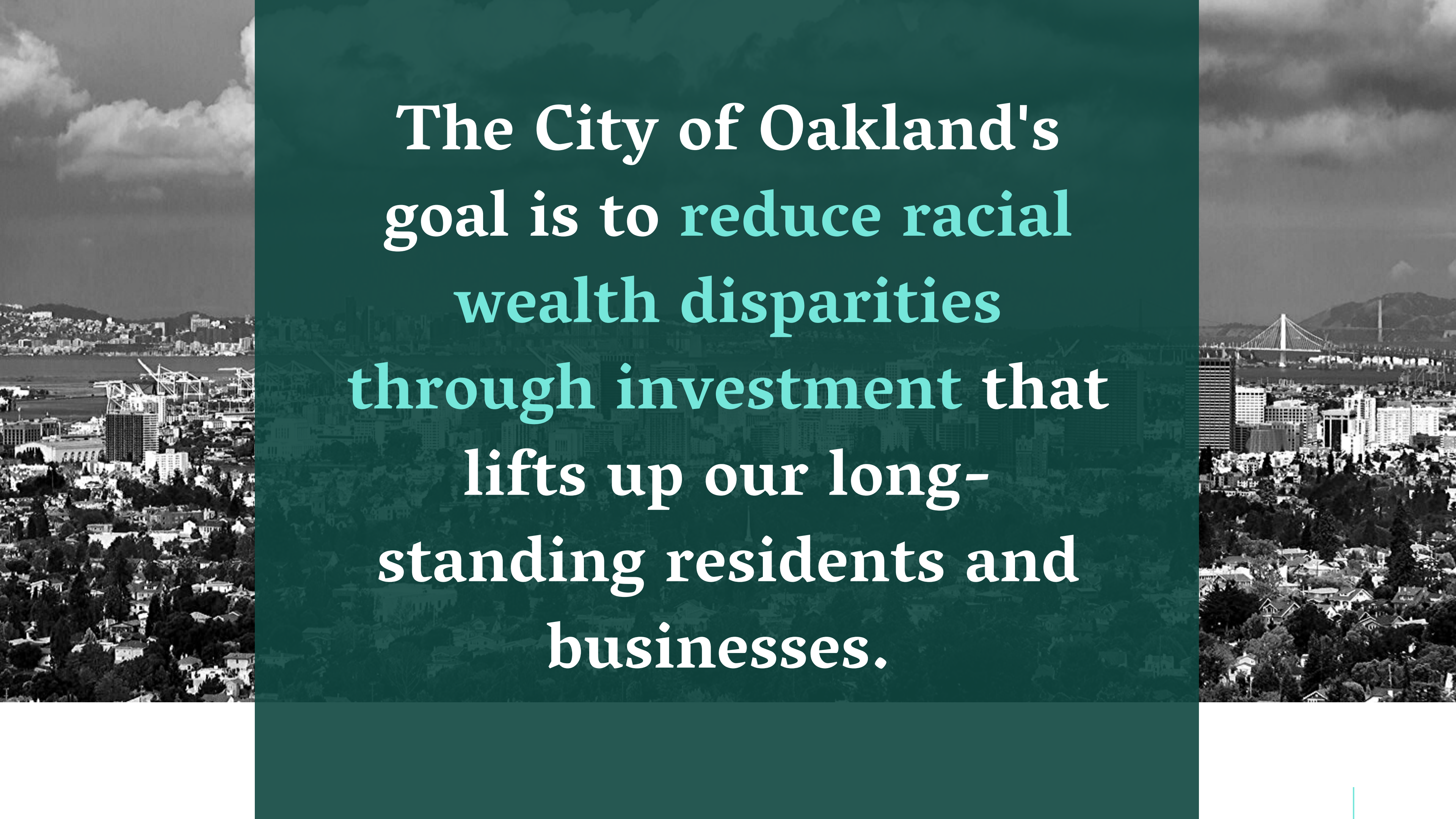
\*Note: Assumes long-term federal capital gains tax rate of 23.8%, no state income tax, and annual appreciation of 7% for both the O-Fund and alternative investment.

## THE BIG TAKEAWAY?

Investors expect to make more tax benefit than on the real estate project itself!

**KEEP THIS IN MIND WHEN NEGOTIATING TERMS WITH INVESTORS!**



An aerial photograph of Oakland, California, showing the city's skyline, the San Francisco Bay, and the Oakland Bay Bridge. The image is split vertically by a teal-colored band that contains white and teal text. The text is centered and reads: "The City of Oakland's goal is to reduce racial wealth disparities through investment that lifts up our long-standing residents and businesses." The words "reduce racial wealth disparities" and "through investment" are in teal, while the rest of the text is in white.

The City of Oakland's  
goal is to **reduce racial  
wealth disparities**  
**through investment** that  
lifts up our long-  
standing residents and  
businesses.



# Oakland's Priorities for OZ Investment



## Housing

Production and acquisition of affordable and workforce housing



## Sustainable

High-density commercial and residential projects at transit hubs



## Revitalize

New neighborhood-serving businesses and revitalization of existing commercial districts



## Culture

Projects that support and preserve Oakland's arts and culture communities



## Equity

Investments in businesses and organizations owned or led by people of color and women



# Oakland's Values for OZ Projects



## Community

Investments that  
demonstrate  
community support



## Wealth

Projects that build  
community wealth



## Security

Avoid displacement  
of existing tenants,  
businesses, and  
cultural communities



## Jobs

Commitments to  
targeted local hire  
goals



## Policy

Consistent with  
adopted policy  
documents (i.e.,  
Specific Plan, ED  
Strategy, Cultural  
Plans etc.)

# Citywide Guardrails for Community Benefits

## OAKLAND'S HEALTHY DEVELOPMENT GUIDELINES

Reporting requirements on community engagement when applying for development review for projects over a certain size

## NO SINGLE-ROOM OCCUPANCY BUILDING CONVERSION

## REHAB COST PROTECTION

Substantial rehabilitation rules protect tenants and limit costs that can be passed on

## RENT PROTECTION FOR CURRENT TENANTS

## DEVELOPMENT IMPACT FEES

Affordable housing, transportation, and Capital Projects impact fees (Affordable Housing Fees waived for affordable housing projects)

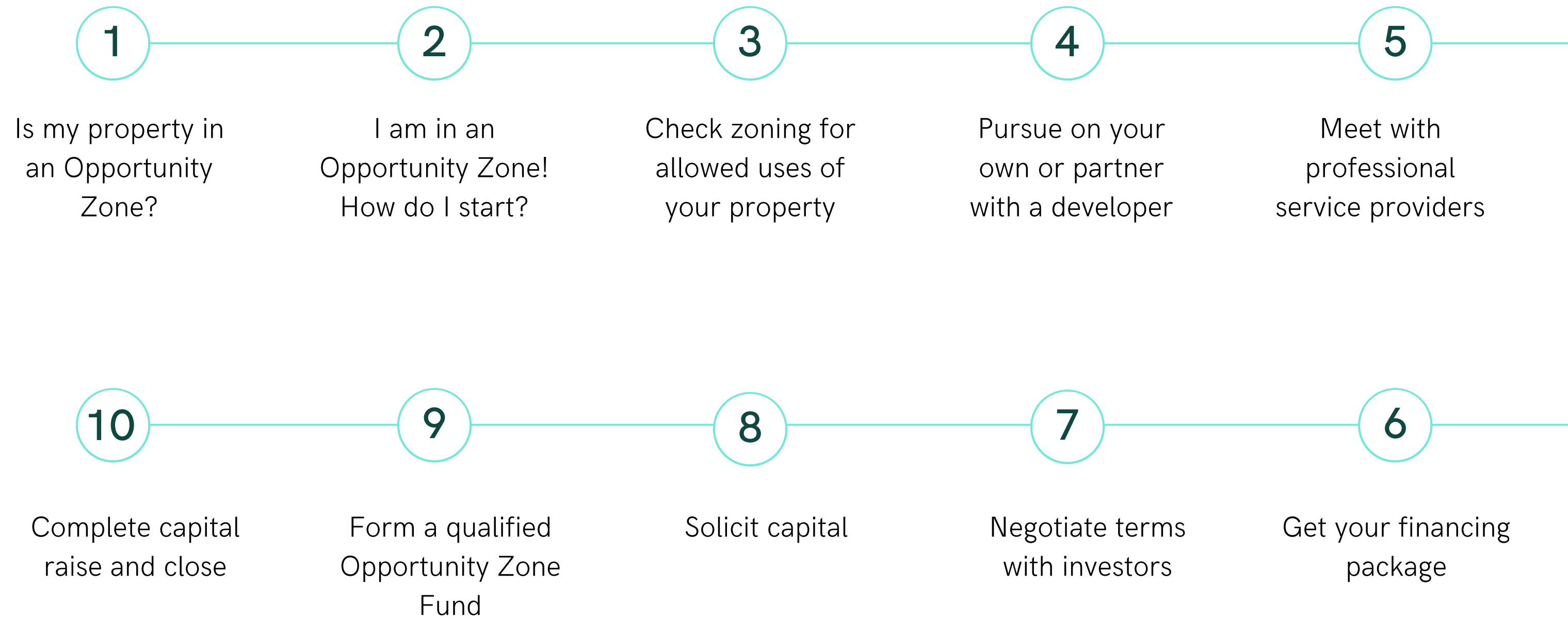
## SHORT-TERM RESIDENTIAL RENTALS HAVE 30-DAY MINIMUM

# Opportunity Zones for Property Owners

- The value of your property has likely increased, which may lead to predatory interest in buying your property
- No direct tax benefits, but you have options
  - Lease your property out to developers while retaining ownership
  - Partner with developers and investors to build out your property and negotiate terms on their exit
- **Owners are not allowed to invest in their own properties, but there are ways to potentially structure around this.**



# Development Guide



# How to Create a Qualified Opportunity Fund

## **Identify a property or project in an Opportunity Zone requiring SUBSTANTIAL IMPROVEMENT**

- Substantial Improvement = 2X the value of the existing structure
- For example
  - a vacant, blighted building in an Opportunity Zone is listed for \$1 million
  - the value of the land is \$200,000, and the value of the improvements (the building) is \$800,000
  - if acquired by the QOF, it must spend at least \$800,000 to improve the property

## **Develop an investor package to pitch investors and lenders**

- This could include pictures of the existing property, drawings the finished development, a development budget, sources and uses of capital, a 5 to 10 year operating budget, resumes for all team members (yourself, development partners, contractors, attorneys, accountants, consultants)
- A development budget will generally require the assistance of a contractor familiar with building costs
- There are nonprofit organizations, such as Community Vision, who can assist with creating operating budgets

## **Find investors with CAPITAL GAINS INCOME**

Soliciting capital is subject to SEC laws

# How to Create a Qualified Opportunity Fund

## **Negotiate deal terms with investors: How much will they get for investing in your deal?**

- How much is your deal worth? This may require an appraisal to determine the value of the property now and the value of the property as-built
- How much are they willing to invest?
- How long are they willing to leave that capital in your project?
- How will they get repaid?

## **Form a legal entity (LLC or corporation) that will serve as the QOF, and self-certify that entity as a Qualified Opportunity Fund using IRS Form 8996**

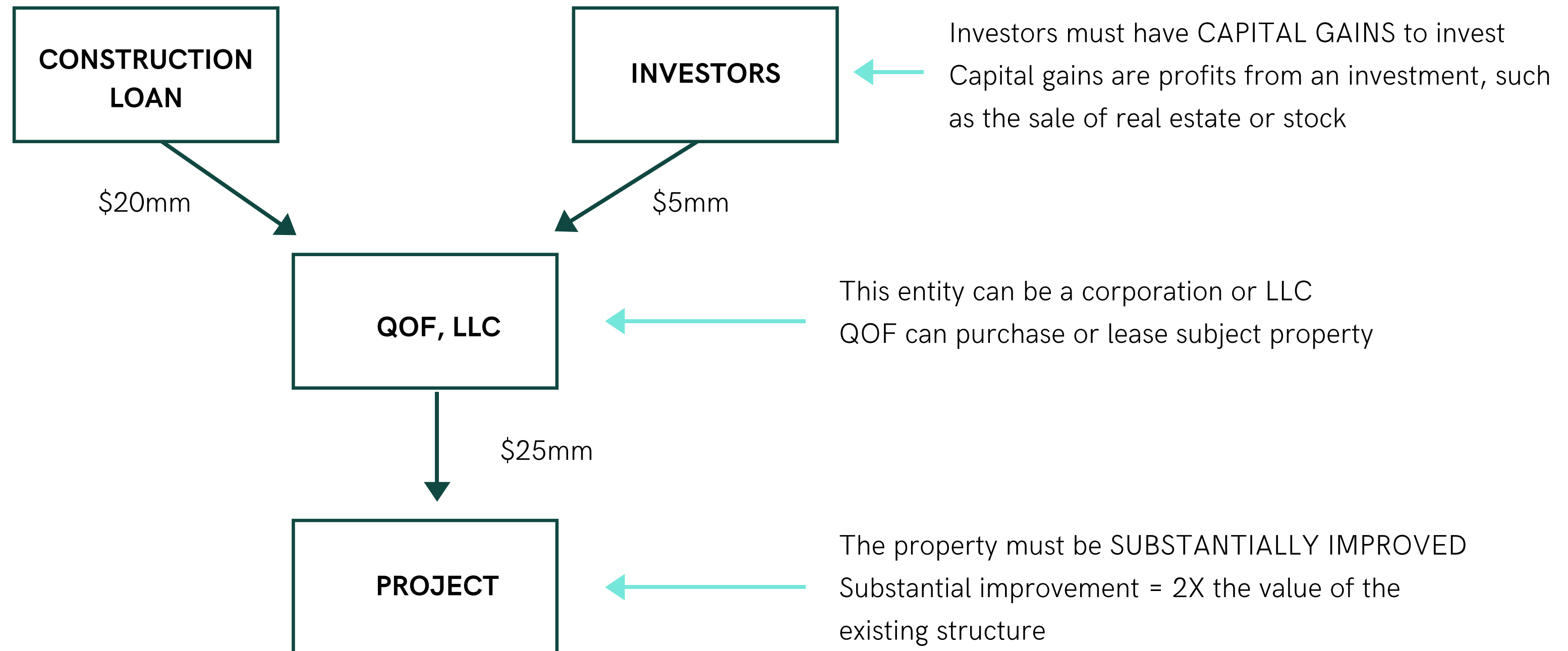
This typically requires an attorney to incorporate all the terms you've negotiated. The Small Business Development Center has a free law clinic. We are working to determine if there are attorneys with OZ capacity. If not, there are attorneys who will provide an initial consult for free.

- There will typically be an Operating Agreement between the Fund and the investors including all of the terms negotiated
- There will typically be an agreement between the Fund and the Development Project
- There may also be an agreement between the developer/sponsor and the Fund



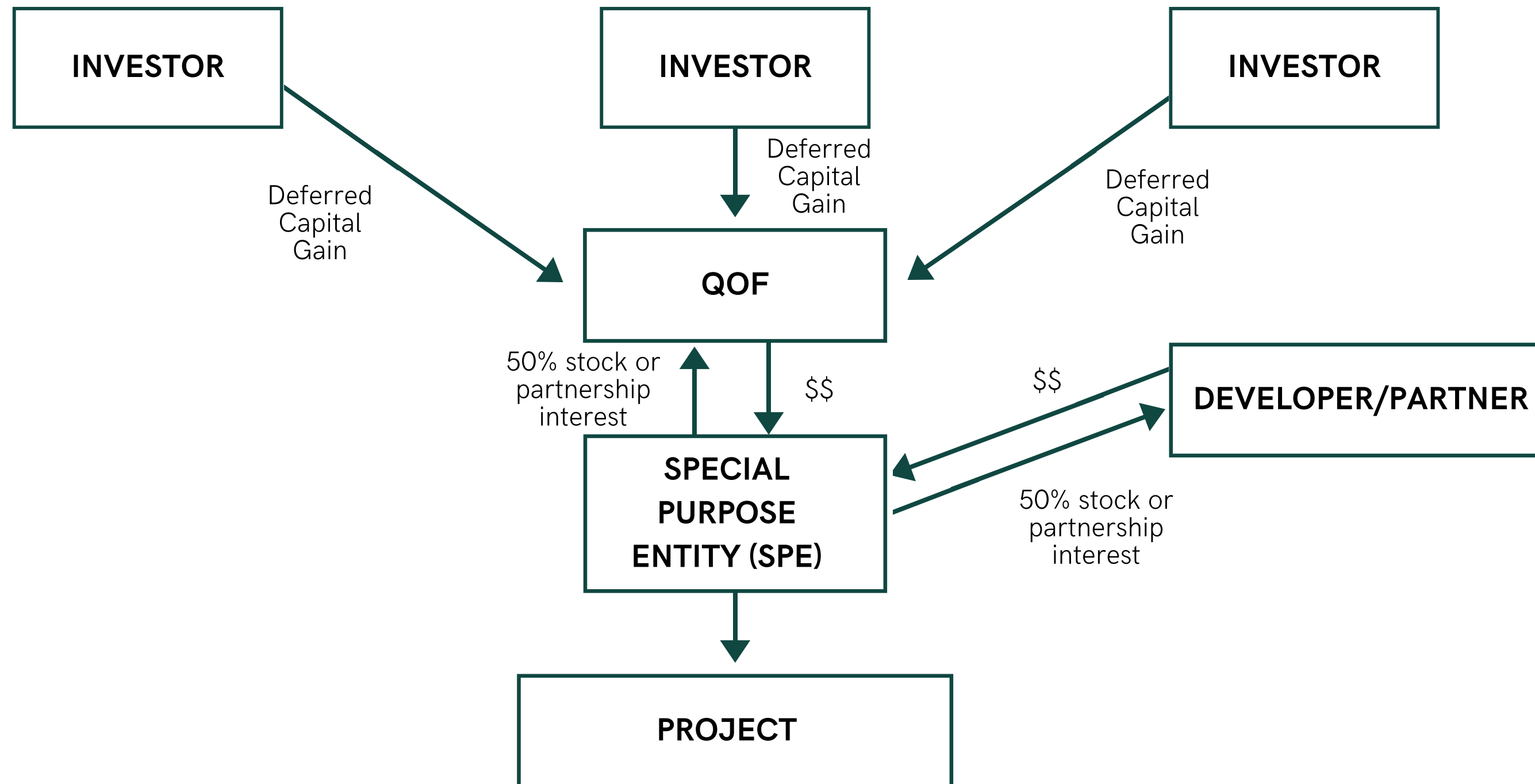
# Qualified Opportunity Fund Structure

EXAMPLE: \$25 MILLION APARTMENT BUILDING DEVELOPMENT



# Qualified Opportunity Fund Structure

EXAMPLE: \$25 MILLION APARTMENT BUILDING DEVELOPMENT



# Soliciting Capital

## Regulation CF (Crowdfunding)

Amount to be Raised:	Up to \$1,070,000 in a 12-month period
Type of Issuers:	US entities only, other limitations apply
Investors:	Any investor (accredited and non-accredited) However, there are limits as to how much non-accredited investors can invest depending on their net worth or income.
Marketing Limitations:	Insurers can only communicate and market through a registered crowdfunding portal. Any type of marketing and communication is permitted through the portal (so long as not misleading). Outside of the portal platform, only very limited factual communications are permitted.
Resale Limitations:	These are restricted securities that generally cannot be resold for one year unless (i) back to the issuer, (ii) to an accredited investor, (iii) as part of a registered offering, or (iv) to a family member or for estate planning purposes.
Filing Requirements:	Issuers must file Form C with the SEC and update it annually so long as, generally, securities issued in Regulation CF offering are outstanding.
Information Requirements:	In addition to providing disclosures about the company and the offering, the issuers must provide financial statements (which have to be audited if the offering exceeds \$535,000 and the issuer has sold securities in reliance on Regulation CF before).
General Comments:	Although cheaper than conducting a Regulation A+ offering, the \$1.07 million cap on the gross proceeds makes it a relatively expensive undertaking. Also, the issuer must conduct its offering through one of the registered crowdfunding portals.



# Soliciting Capital

## Regulation D Rule 506(b)

Amount to be Raised:	Unlimited
Type of Issuers:	Any issuer, including foreign issuers Certain limitations apply (such as that the issuer cannot be a "bad actor")
Investors:	Unlimited number of accredited investors and up to 35 non-accredited but financially sophisticated investors.
Marketing Limitations:	No general solicitation or advertising is permitted. Offers and sales should be made only to those investors with whom the issuer has pre-existing relationship.
Resale Limitations:	Restricted securities (i.e., not freely tradeable generally for at least one year)
Filing Requirements:	Issuers must file Form D with the SEC within 15 days after the first sale. The issuer also needs to make notice filings in every state where the investors reside.
Information Requirements:	If the issuer accepts money from non-accredited investors, it must provide a private placement memorandum with specific mandated disclosures specified in Rule 502 of Regulation D.
General Comments:	This exemption may not be suitable for those offerings that are conducted online through unrestricted web portals because of the restriction on solicitation and advertising (because posting offering details on a website is generally considered to be advertising).

# Questions?

For more information, please contact:

Monica Edwards  
Chief Opportunity Zone Officer  
Economic & Workforce Development Department  
City of Oakland  
[medwards@oaklandca.gov](mailto:medwards@oaklandca.gov)

Adrienne Dang  
Community Engagement Specialist  
Economic & Workforce Development Department  
City of Oakland  
[adang@oaklandca.gov](mailto:adang@oaklandca.gov)

Lydia Fojtik  
Community Engagement Specialist  
Economic & Workforce Development Department  
City of Oakland  
[lfojtik@oaklandca.gov](mailto:lfojtik@oaklandca.gov)







# City of Oakland & Qualified Opportunity Zones

February 22, 2020



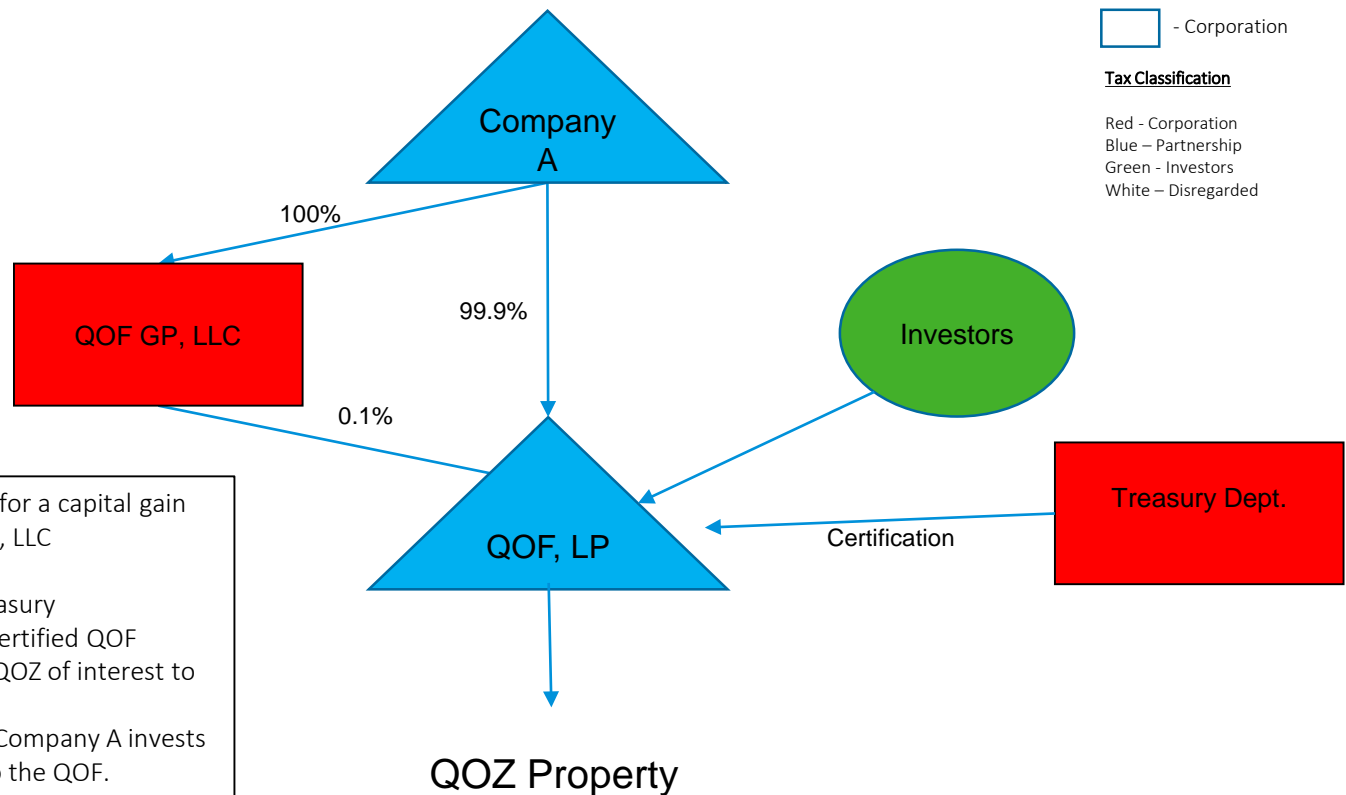
# QOZ Property – Business Property

## Legal Classification

-  - Individual / Investor
-  - Limited Partnership/ Limited Liability Company
-  - Corporation

## Tax Classification

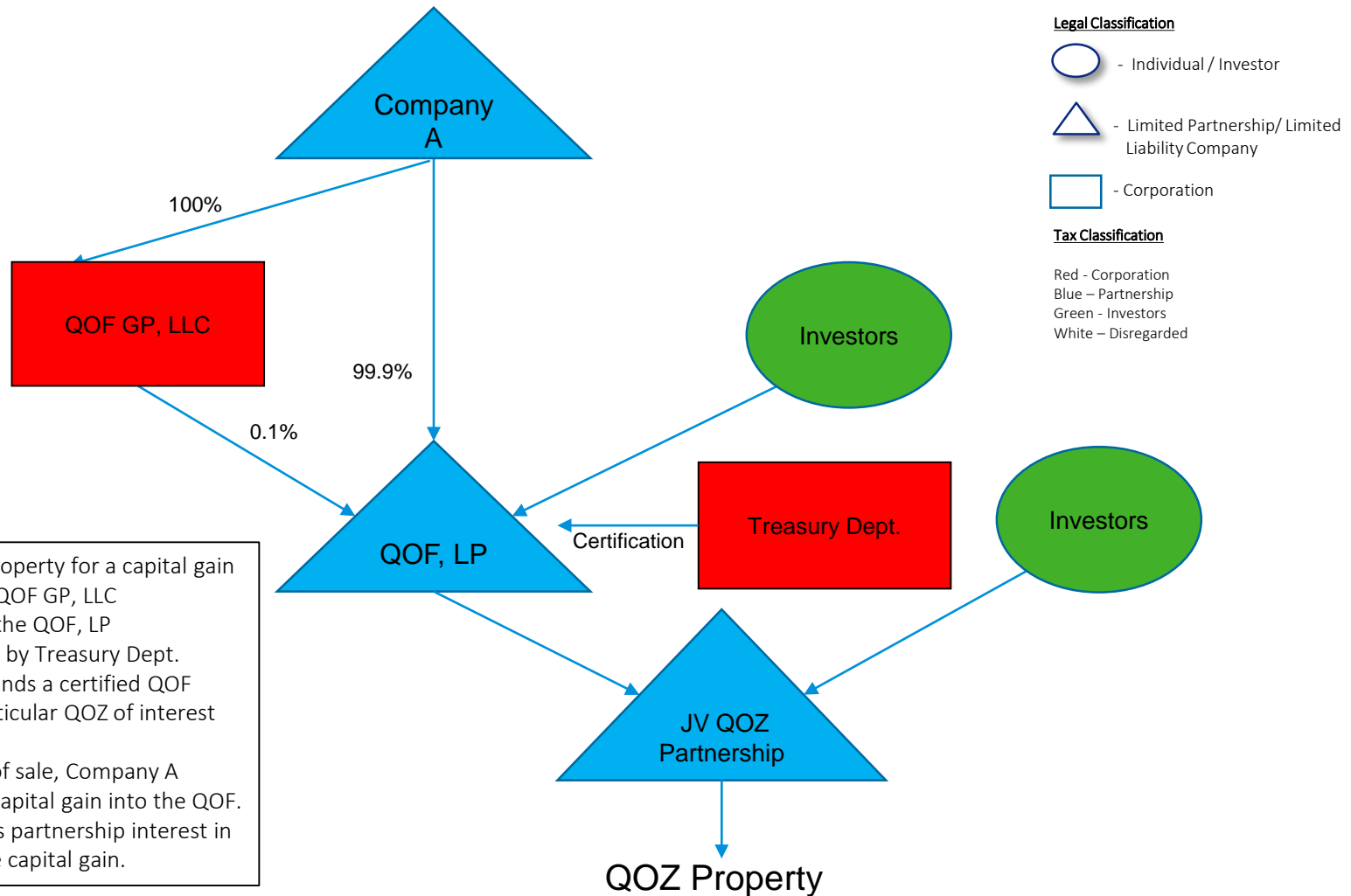
- Red - Corporation
- Blue – Partnership
- Green - Investors
- White – Disregarded



- Step 1:** Company A sells property for a capital gain  
**Step 2:** Company A forms QOF GP, LLC  
**Step 3:** Company A forms QOF, LP  
**Step 4:** QOF, LP is certified by Treasury  
**Alt. Step 2-4:** Company A finds a certified QOF willing to invest in the particular QOZ of interest to Company A.  
**Step 5:** Within 6 months of sale, Company A invests cash equal to the capital gain into the QOF.  
**Step 6:** The QOF purchases the property in the QOZ with the invested cash.



# QOZ Property - Partnership Interest



**Step 1:** Company A sells property for a capital gain  
**Step 2:** Company A forms QOF GP, LLC  
**Step 3:** Company A forms the QOF, LP  
**Step 4:** QOF, LP is certified by Treasury Dept.  
**Alt. Step 2-4:** Company A finds a certified QOF willing to invest in the particular QOZ of interest to Company A.  
**Step 5:** Within 6 months of sale, Company A invests cash equal to the capital gain into the QOF.  
**Step 6:** The QOF purchases partnership interest in JV QOZ with cash from the capital gain.



# Thank you



# BUILD AND OWN YOUR NEIGHBORHOOD

*A DISCUSSION ON INVESTING IN AND DEVELOPING YOUR CITY.*





Development  
Consulting  
Financing  
Whatever It Takes...





# About Us

## Ivan Jerskey



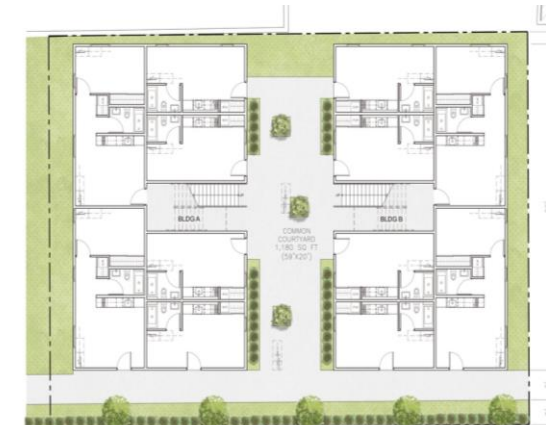
- Current Projects:  
152 Unit Senior Housing Community  
216 Unit Multifamily
- Certified Commercial Advisor (CCA)



## Charles Green



- Current Projects:  
28 Multifamily Units in Portland, OR
- Registered Architect CA & OR



## What is a Real Estate Developer

Opportunistic real estate developer - raw land to build and develop.

Value-Add developer - renovations/rehabilitation.

A Developer adds value to the land.

## What Does a Real Estate Developer Do?

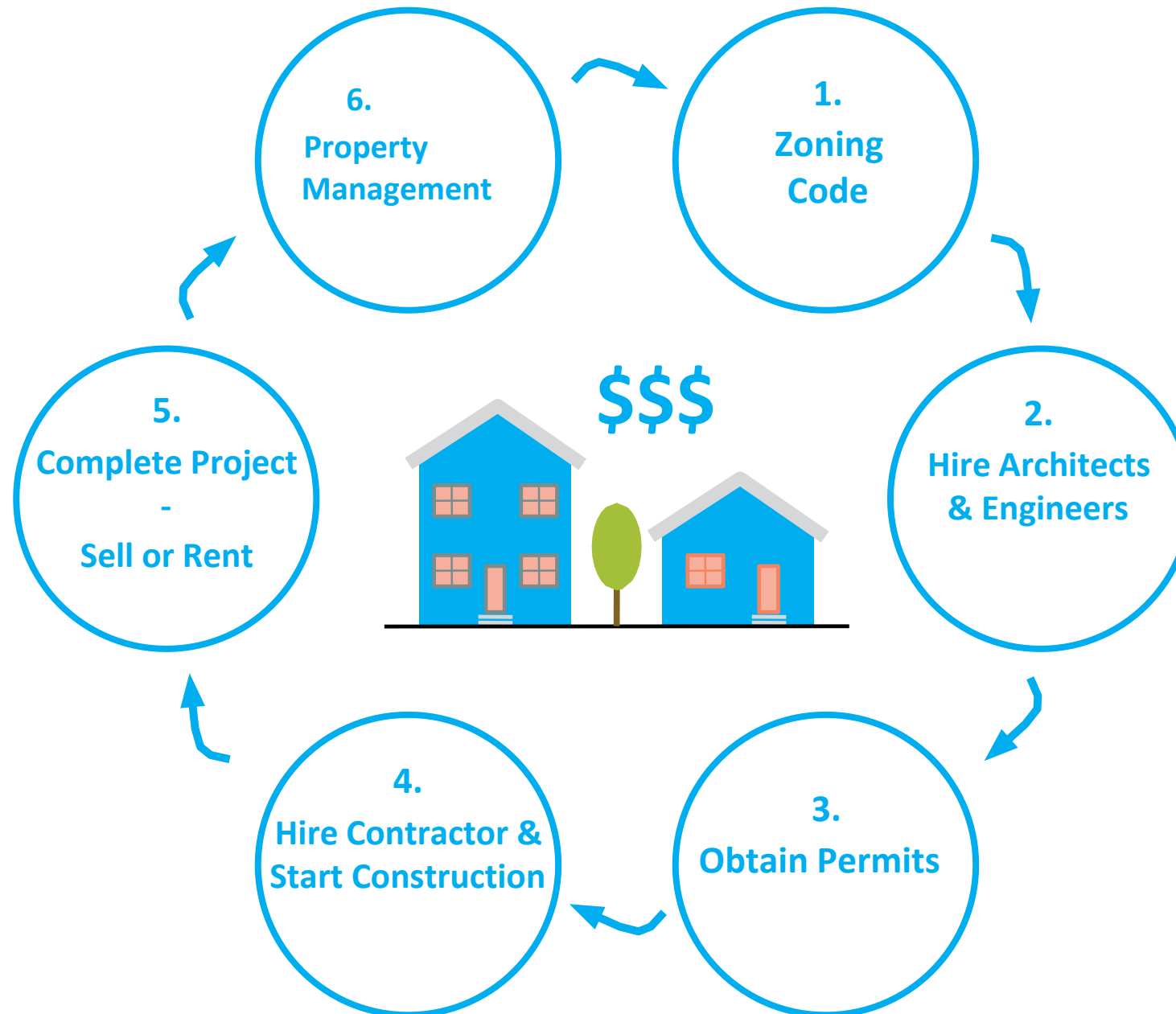
A real estate developer handles the project from start to finish. They are responsible for planning, designing, financing, and bringing together the team of people who are going to execute the plan.

Analogy:  
Developers are like a  
Leader of a Small Band





# Development Process - Property Owner



# Development Walk Through

Oakland, CA

(28) Apartments + 1 Ground Floor  
Restaurant



# Uncle Willie's BBQ and Fish





# Uncle Willie's BBQ and Fish





# Zoning



# Zoning

Lot Size - 2,593 Sq Ft

- Max Allowable Units = 28

- 2,593 x 14 FAR = 36, 302 total allowable sf

- Max Height - 275 ft

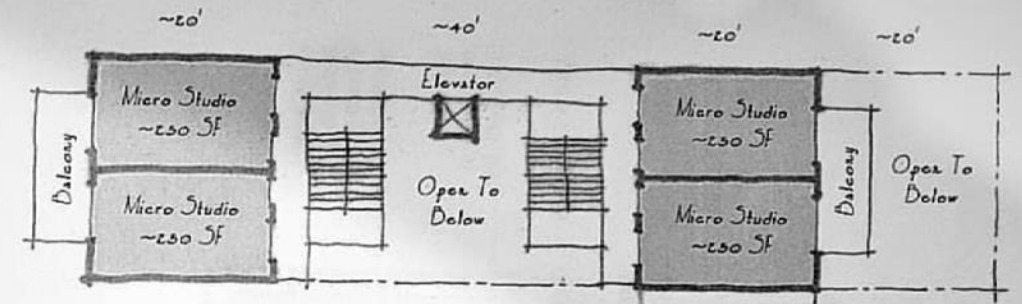
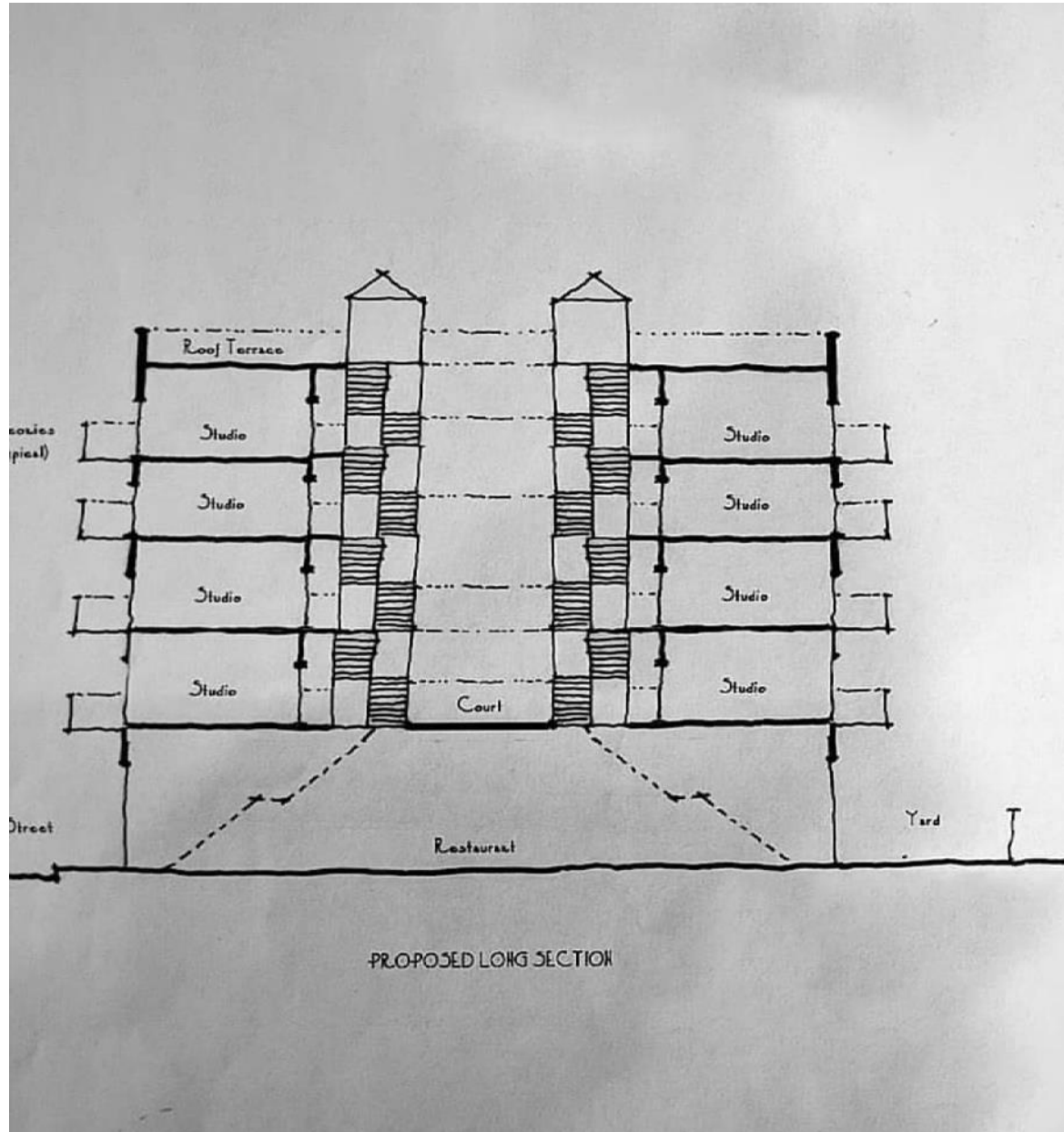
- FAR = Floor Area Ratio

Table 17.58.04 Height, Density, Bulk, and Tower Regulations

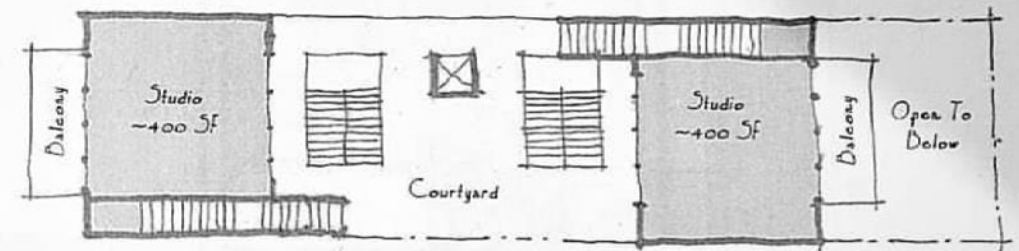
Regulation	Height/Bulk/Intensity Area							Notes
	1	2	3	4	5	6	7	
Maximum Density (Square Feet of Lot Area Required Per Unit)								
Dwelling unit	300	200	90	90	90	90	90	1,2
Rooming unit								
Rooming unit	150	100	45	45	45	45	45	1,2
Maximum Floor Area Ratio	4.5	6.0	8.0	14.0	17.0	20.0	20.0	2
Maximum Height								
Building base	55 ft	85 ft	55 ft	85 ft	85 ft	85 ft	120 ft	3
Total	No tower permitted	No tower permitted	170 ft	275 ft	400 ft	No height limit	No height limit	3
Minimum Height								
New principal buildings	None	None	None	45 ft	45 ft	45 ft	45 ft	4
Maximum Lot Coverage								
Building base (for each story)	Not applicable	Not applicable	100% of site area	100% of site area	100% of site area	100% of site area	100% of site area	
Average per story lot coverage above the base	Not applicable	Not applicable	50% of site area or 7,500 sf, whichever is greater	75% of site area or 10,000 sf, whichever is greater	75% of site area or 10,000 sf, whichever is greater	75% of site area or 10,000 sf, whichever is greater	85% of site area or 10,000 sf, whichever is greater	5
Tower Regulations								
Maximum average area of floor plates	Not applicable	Not applicable	10,000 sf	15,000 sf	20,000 sf	25,000 sf	No maximum	6
Maximum building length	Not applicable	Not applicable	115 ft	150 ft	175 ft	195 ft	No maximum	7
Maximum diagonal length	Not applicable	Not applicable	145 ft	180 ft	210 ft	235 ft	No maximum	
Minimum distance between towers on the same lot	Not applicable	Not applicable	40 ft	40 ft	40 ft	40 ft	No minimum	



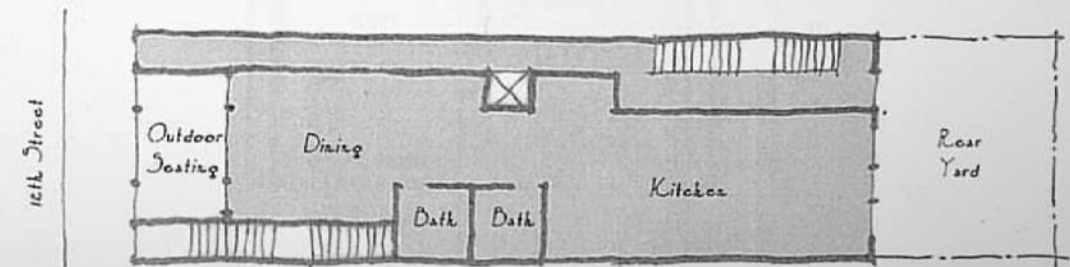
# Rough Sketches



LEVELS 5, 5.5/6 (6.16 Studios @ 250 SF/500 SF, 3000/4000 SF total)



LEVEL 2 (2 Studios @ 400 SF, 800 SF total)



# Does It Work on a Napkin?

\$530,000 Purchase  
\$900,000 Development  
Costs  

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\$1,430,000  
  
\$1,900,000 Sale price  
  
75% return over 9 months  
  
Worth it?

**Do the numbers actually work?**



# Development Financing Costs

Total Hard & Soft Costs	17,200	\$381	\$6,557,780
Finance Costs			
Construction Loan Interest		7.00%	\$379,190
Construction Loan Origination Fee		1.00%	\$54,170
Total Finance Costs			\$433,360
Total Development Costs (Without Mortgage)			\$6,991,140
Mortgage Cost			\$650,000.00
Mortgage Loan Interest based on Loan Amount	4.25%	\$650,000.00	\$27,625.00
Mortgage Loan Origination Fee	0.00%	\$650,000.00	\$0.00
Total Mortgage Cost			\$677,625.00
Total Development Costs (With Mortgage)	17,200	\$446	\$7,668,765

# The Typical Development Process

1. Market and Feasibility Studies, Zoning 
2. Property Acquisition 
3. Pre-Development (Soft Costs) 
  - Site Plans, Building Plans, Development Plans – Permits
  - Arrange Construction Financing
4. Construction Period (Hard Costs) 
  - Typically 12-18 months
5. C/O Rent, Sell the Building 
6. Permanent Loan 
7. Property Management 

**Outcome?**



# Uncle Willie's BBQ and Fish

Existing Asset: Restaurant and 3 unit apartment

## Asset Objective:

New Restaurant

14 - 28 Unit Apartment Complex

## Arrangement Objective:

Apartment Complex is self-sustaining (covers entire mortgage)

Restaurant Cash Flow goes directly to family

Uncle Willie's has an asset to pass on for future family generations



# Questions?



Ivan Jerskey: [ivanj@cosyndev.com](mailto:ivanj@cosyndev.com)

Charles Green: [charles@cosyndev.com](mailto:charles@cosyndev.com)



# Opportunity Zone Community Meeting



CITY OF OAKLAND



# Questions?

Please complete our exit survey at the link below or scan the QR code to reach the survey (also on the agenda handout)

<https://bit.ly/2SNdce6>





# THANK YOU!

For more information, please contact:

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Chief Opportunity Zone Officer

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