

SEPTEMBER 21, 2018 | MARK HESCHMEYER

# 'Opportunity Zone' Designation Reels in New Interest in Overlooked Areas

Special Report: First Opportunity Funds, Projects Start To Emerge



A rendering of the planned development of the Colorado Outdoors Recreation Park.

Two years ago, David Dragoo, president of Mayfly Outdoors, a maker of Ross and Abel fly-fishing reels, purchased 125 undeveloped acres along the Uncompahgre River on the Western slope of the Rockies in Montrose, Colorado. The area was a setting for numerous Western movies in the 1950s and 1960s and more recently became a transportation waypoint for surrounding outdoor recreation areas. Now it's luring investors.



## OPPORTUNITY ZONES: *Investor Interest*

Dragoo sees it as the future home of the Colorado Outdoors Recreation Business Park. The

park is to include 670,000 square feet of commercial and retail space, river restoration and more than two miles of river trails. Dragoo is anchoring the project with a new 41,000-square-foot headquarters and manufacturing facility that started construction a year ago.

All of this was prior to the passage and signing into law of the Tax Cuts and Jobs Act last December, which created a program offering tax benefits incentives for investment in low-income communities designated as so-called Opportunity Zones.

In April of this year, the area including Dragoo's park was designated as a qualified zone. That occurrence and growing publicity of the federal program is when investors really began biting at the new bait to be part of the project, according to Dragoo and the broker working with him on the site.

"We have a huge amount of activity here," said John Renfrow, owner of Renfrow Realty in Montrose, Colorado. "We're getting inundated."

It has been both "cool and scary," Renfrow said. He has had stockbrokers calling him asking what their clients can get for \$50 million in the zone to which he has jokingly told them almost the entire city of Montrose.

The designation has opened up possibilities that were never there before, Dragoo said.

Those possibilities include whether Mayfly should further develop the park itself or join with one of growing group of qualified opportunity funds, the vehicles by which opportunity zone investments will be made. Dragoo has spent the first week of September interviewing such funds.

The response Dragoo and Renfrow are getting is the response that brokers across the country are hoping for from projects they represent in zones in their markets.



The current undeveloped site for the planned project.

Elizabeth Belenchia, president of Carroll Properties Corp. in Spartanburg, South Carolina, is pitching five industrial sites near Blacksburg, South Carolina, in a designated zone in Cherokee County, South Carolina. The 30-square-mile area with no zoning is home to about 3,600 people, one-third of them living below the poverty level.

Belenchia is marketing a 431-acre site tagged as the New Smart City to which she has devoted years grooming and advancing plans for its disposition.

The effort paid off last year when the county agreed to include the site in an official proposal to online retailer Amazon as a potential

location for its proposed second headquarters, a project known as HQ2.

The site was pitched as a new master planned sustainable city with its own government, tax structure, school system, and with its own source of self-sustaining revenue. Water from a private 45-acre, private, limestone quarry is large enough to support ongoing cooling, recreation, hydroponics as well as providing the cash flow needed to pay for the entire development of HQ2, Belenchia's pitch reads.

While South Carolina did not make Amazon's list of 20 finalists, Belenchia is now asking, "if not Amazon, then who." Belenchia has begun a new round of marketing tied to inclusion in a designated opportunity zone. She has been meeting with advisers to set up an opportunity fund to funnel investment to the zone.

This month, Green Tech Solution Inc. announced plans to locate new recycling operations in the zone.

South Carolina's recycling industry is growing, and foreign investment has played a large role in this. Green Tech Solution, a U.S. subsidiary of Tianjin Sheng Xin Non-Financing Guarantee Co. Ltd., an investment company based in Tianjin, China, plans to establish a recycling operation to collect and process a variety of materials, including plastics, scrap metal, electronics and more.

"Their investment of \$75 million and the creation of 200 new jobs will greatly increase the standard of living for many Cherokee

County residents. We appreciate Green Tech Solution Inc. selecting Cherokee County for the project and bringing new life to one of our available industrial buildings," said Cherokee County Council Chairman Tim Spencer.

*Story continues below...*



Esri, Garmin, FAO, NOAA, EPA | Esri, Garmin, FAO,

The tax code now encourages private capital to invest in eligible low-income rural and urban communities across the U.S. called Opportunity Zones.

Other opportunity funds and projects have quickly started emerging in the past few weeks:

» In Troy, Michigan, **The Kresge Foundation** and **The Rockefeller Foundation** issued a call for letters of inquiry related to work in designated Opportunity Zones back in June with the aim of finding projects that align with their institutional missions. They were hoping to receive a few dozen or so responses. They received

141. "The number and quality of the responses is a testament to the enormous market interest and energy that exists around opportunity zones," said Lorenzo Bernasconi, senior associate director for Innovative Finance at The Rockefeller Foundation. Geographically, 20 applicants represented national funds, 11 were targeting regional investments, and 113 were looking to work at a state or local levels.

Kresge has identified five organizations to receive support, and more may be added. The foundations will also work with 15 applicants to further explore their social objectives and capital raising strategies related to OZ funds.

» **Foundation Capital Partners**, a private real estate investment management firm in New York City, it is raising an opportunity zone fund to focus on the development of industrial properties and e-commerce logistics facilities. Foundation Capital is expected to close its first investment in a ground-up project in the Sun Belt at the end of the year.

» **Sikari Luxe** in Miami is launching individual funds targeted to investment in major markets across Florida. Its newest fund will focus on opportunity zone investments in Miami targeting \$750 million in funds.

» Lawrence Mendelsohn, chairman and chief executive of mortgage investment real estate investment trust **Great Ajax Corp.** said this past month that his board "told us to go set up an entity underneath Great Ajax operating partnership for investments in tax advantaged opportunity zones." The fund would give the REIT the

ability to be able to source some properties cheaper because sellers have significant tax advantages both from the sale of their property and from partnership units in an opportunity zone, Mendelsohn said.

» **Sound West Group**, a property developer and asset manager in Seattle, has launched Sound West Realty Capital, an investment firm primarily focused on the sponsorship of project-specific qualified opportunity zone funds. The first program, Sound West OZ Fund I, a multi-asset class project in the greater Seattle area, is set to be available for investment this month.

» **Rivermont Enterprise Emergent Communities Fund**, a partnership between Rivermont Capital, Enterprise and Beekman Advisors, has created an opportunity fund looking to raise to raise \$250 million with a first close in December 2018. The Emergent Communities Fund will invest in main streets across small cities and towns in the Southeast with an initial focus on North Carolina and Virginia.

» New York based developer **Youngwoo & Associates** and **EquityMultiple**, an online commercial real estate investment startup, have created an opportunity zone fund. "We see the creation of opportunity zones as one of the biggest real estate investment opportunities in decades. Done correctly, the program can provide real value to both underinvested neighborhoods and individual investors," said Charles Clinton, chief executive and co-founder of EquityMultiple.

» **Access Ventures**, a Louisville, Kentucky-based impact investment fund is exploring an opportunity zone fund. "While opportunity zones are a hot national topic, we aren't pursuing this just because of an important incentive, as attractive as it may be," the firm said. "Opportunity zones, instead, provide an opportunity to focus on an investment strategy that can answer questions we have been asking for the last decade. How can you build an investment strategy that helps entrepreneurs across the country from all backgrounds, not just the 1 percent of companies that raise venture capital?"

» In Chicago, **CIM Group** and **fifteenfortyseven Critical Systems Realty** acquired Midway Technology Centre, a vacant industrial campus spanning about 220,000 square feet consisting of a five-story building and surface parking lots. The property at 40 East Garfield Blvd. is in an opportunity zone and is expected to be converted into a data center with tech office space.

» **FRP Holdings**, which this past spring sold 41 industrial warehouses to an affiliate of Blackstone for \$358.9 million, is planning to redeploy some of those proceeds into opportunity zone projects. It is negotiating with a joint venture partner to invest in the first phase of a multiphase mixed-use project in Northeast Washington, D.C. That phase will consist of about 500 apartment units and 79,000 square feet of retail.

» In Norfolk, Virginia, **Zimmer Development Co.** purchased a 4,840-square-foot restaurant property at 4521 Pretty Lake Ave. and a marina property at 4621 Pretty Lake for \$7.6 million. Zimmer

plans to redevelop the opportunity zone properties into apartments. The zone designation was a big plus for the buyer, said John Merenda of JMS Commercial, who brokered the deal. The tax advantages associated with the zone investment are comparable to getting the property for free, Merenda said.

**Editor's Note:** This is the third of five parts on new so-called Opportunity Zone tax benefits designed to boost investment in economically distressed communities.

[Part I: The Coming Cash Wave](#)

[Part II: Awaiting the Rules](#)

**Part III: Investor Interest**

[Part IV: Boon or Boondoggle?](#)

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