Opportunity Zones: Potential Economic and Community Impacts in Durham and Johnston Counties, North Carolina

Randy Allen Delgado

Dr. Robert Healy
Nicholas School of the Environment

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Abstract

The 2017 Federal Tax Cuts and Jobs Act included a provision for creating "Opportunity Zones" to spur investment in disadvantaged communities. The Act provided that funds invested in these zones (plus an additional amount of "new money") will enable investors to postpone taxes on capital gains from other investments, and also reduce their tax rate if the investment is kept for more than ten years. What is the possible economic and social impact of these Opportunity Zones both nationally and in North Carolina? This paper reviews hundreds of investment funds and projects that have been created to channel private capital into Opportunity Zones. It then looks at zones in Durham County (7 zones) and in Johnston County, North Carolina (4 zones). In Johnston County the opportunity tracts will likely attract investors seeking market-rate returns, result in more temporary economic impact and little to no social impact. In Durham County the opportunity tracts will likely attract investors seeking equitable development and have the potential to achieve longer term social impacts. It will be important to consider how the Opportunity Zone program interacts with other government subsidies (e.g., New Market Tax Credits) available to investors.
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Introduction

No nation state can escape the inherent divide between the privileged and underprivileged amongst their citizenry. Often this is expressed geographically, with some communities and neighborhoods being more prosperous than others. Over the course of history and across the globe governments, non-governmental organizations, inter-governmental organizations and Non-profits have designed economic and community development programs to aid under resourced localities. The success and failure of these programs should be studied. The results can be used to inform new policies and identify the requisite factors of long term impact.

In the United States, we have tried a variety of place-based antipoverty transfer and economic programs, with mixed results. Title I of the Housing Act of 1949 encouraged “urban renewal” and large-scale public housing projects, but “exposed the social and political cost of big bulldozer schemes and revealed the limitations inherent in federal policy” (Teaford, 2000). The Empowerment Zone and Enterprise Community Initiative of 1993 gave tax incentives for private investment in local areas but was “no panacea for tackling urban distress, and certainly was not as innovative a policy” (Oakley and Tsao, 2006).

In 2017, as part of the Tax Cuts and Jobs Act, Congress included a provision for creating Opportunity Zones (OZ) which established new tax incentives to attract more private investment in “under resourced” communities throughout the United States. The Urban Institute found substantive gaps in the policy and its ability to support long term positive impact on under-resourced communities across the United States (Theodos et al., 2020).

This paper looks at how the new program is structured and early information on its national implementation. It then considers how the program might work in two North Carolina
counties, Durham and Johnston County. First, is the program attractive to private investors, and in what way? Second, are investments under the program likely to produce short term or long-term community benefits?
Chapter 1 – The Opportunity Zone Program

The Opportunity Zone program is a “tax incentive to draw long-term investments to parts of America that continue to struggle with high poverty and sluggish job and business growth.” (Tankersley, 2018)

Section 1.1: The Opportunity Zone Program

The bipartisan Opportunity Zone provision within the 2017 Tax Cuts and Jobs Act legislation was sponsored by Senators Tim Scott (R-S.C.), Cory Booker (D-NJ), Representatives Pat Tiberi (R-OH) and Ron Kind (D-WI). Senator Scott stated the Opportunity Zone program was “for American people stuck, sometimes trapped, in a place where it seems like the lights grow dimmer, and the future does, too” (Drucker & Lipton, 2019). The bipartisan provision was modeled after the proposed Investing In Opportunity Act (IIOA) in 2016. It represented a newly proposed economic development model drafted by the bipartisan think tank Economic Innovation Group. The IIOA was eventually incorporated into the Tax Cuts and Jobs Act and passed through both chambers of Congress in December 2017. The law was then passed on to the Treasury Department to develop clear guidelines.

The Opportunity Zone program was created to increase private investments into distressed communities across the United States and address the shortcomings of previous federal programs targeting these areas. The Opportunity Zone program was structured to harness “the power of intermediaries such as private equity firms, banks, venture capitalists, mutual funds and hedge funds” (Bernstein & Hassett, 2015) and access a larger pool of capital. The program removed the overly complicated and restrictive elements of previous programs (Table 1).
Table 1

Sample Federal Programs for Distressed Communities

<table>
<thead>
<tr>
<th>Federal Program</th>
<th>Description</th>
<th>Investor Challenges</th>
</tr>
</thead>
</table>
| Empowerment Zone (EZ), Enterprise Communities (EC) & Renewal Communities (RC) | EZ, EC and RC programs where targeted at providing businesses incentives to locate within or hire from these designated areas | • Overly complicated and under utilized
|                                                                                |                                                                              | • Weak or Misaligned Incentives             |
| New Market Tax Credit (NMTC)                                                    | NMTC program was designed to providing tax credits for investments in Community Development Entities | • Restrictive Scope
|                                                                                |                                                                              | • Interaction with Other Programs           |

In 2020, over 50 million Americans lived in what the Economic Innovation Group defines as “distressed communities” where median annual family income falls below $37,800 and over 35% of eligible adults are out of work (Table 2). The distressed communities can be found across urban, rural and suburban areas (Figure 1). They are disproportionately found in Appalachia and the South Central region, but distressed areas are found in fast growing states such as Arizona, Texas and North Carolina, and at a finer grain in many of the largest cities. Economic development leaders within these communities have struggled to attract private investment over the past decade but most of these private dollars have been invested into major economic centers across the United States where the risk and returns can meet investor expectations (Tankersley, 2018).
Table 2

*Distressed Communities Composition*

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
<th>Distressed Community</th>
</tr>
</thead>
<tbody>
<tr>
<td>No High School Diploma</td>
<td>Percent of population 25 years or older without a high school diploma or equivalent</td>
<td>20.6%</td>
</tr>
<tr>
<td>Housing Vacancy Rate</td>
<td>Percent of unoccupied habitable housing</td>
<td>15.3%</td>
</tr>
<tr>
<td>Adults Not Working</td>
<td>Percent of the population of 25-54 adults not employed</td>
<td>35.3%</td>
</tr>
<tr>
<td>Poverty Rate</td>
<td>Percent of the population living under the poverty line</td>
<td>24.8%</td>
</tr>
<tr>
<td>Median Income Rate</td>
<td>Median household income as a percent of metro area median household income</td>
<td>$37,800</td>
</tr>
<tr>
<td>Change in Employment</td>
<td>Percent change in the number of jobs from 2014-2018</td>
<td>-4.4%</td>
</tr>
<tr>
<td>Change in Establishment</td>
<td>Percent change in number of business establishments from 2014 to 2018</td>
<td>-4.2</td>
</tr>
</tbody>
</table>

*Note.* From “The Spaces Between Us” (Benzow et al. 2020)
Section 1.2: The Opportunity Zone Program Construct

The Opportunity Zone program created under the 2017 Tax Act promises to leverage intermediaries that advise individuals and corporations to invest a portion of the roughly $2.26 trillion of unrealized capital gains across distressed communities in the United States (Bernstein & Hassett, 2015). The program allows investors with capital gains to invest in an Opportunity Zone (for example by starting a business or constructing a building there) individually or to join with other investors through a self-certified Opportunity Fund.¹ In either case, investors can defer realizing their capital gains until 2026 and reduce their capital gains taxes by 15% if they hold their investments in the zone or the fund for at least seven years. Investors can eliminate all capital gains associated with dollars within the Opportunity Zone if they hold these investments

¹ Opportunity Zone investments are required to be made through Opportunity Funds. These funds can be funded by one or more individuals.
for at least ten years (Table 3, Figure 2). Real estate investors have long been able to defer (though not avoid) capital gains tax by rolling over gains into “like” properties. But the new law enables a deferral of gains not only for real estate but also for proceeds of sales of stock, bonds and small businesses.

Table 3

*Investor Benefit Summary in Opportunity Fund*

<table>
<thead>
<tr>
<th>Year</th>
<th>Action</th>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>Realization of Capital Gain</td>
<td>No more than 180 days after investing into Opportunity Fund</td>
</tr>
<tr>
<td>2019-2024</td>
<td>Hold Investment For 5 Years</td>
<td>90% of capital gain invested in fund is taxable</td>
</tr>
<tr>
<td>2024-2026</td>
<td>Hold Investment For 7 Years</td>
<td>85% of capital gain invested in fund is taxable and realized</td>
</tr>
<tr>
<td>2026-2029</td>
<td>Hold Investment For 10 Years</td>
<td>No taxes realized on capital gains within the fund</td>
</tr>
</tbody>
</table>
The Opportunity Funds are required to invest at least 90% of their assets in Opportunity Zones. In 2018 Governors from each state selected low-income census tracts for Opportunity Zone designation. The U.S. Department of Treasury certified 8,766 Opportunity Zones across the United States, the five U.S. territories and the District of Columbia (Figure 3).

Approximately 23.2 percent of the opportunity zones are in rural areas and 294 contain Native American Lands (Economic Innovation Group, n.d.). In North Carolina 252 Opportunity Zones were identified and confirmed (Figure 4).
Figure 3

United States Opportunity Zones

Note. From https://opportunityzones.hud.gov/resources/map

Figure 4

North Carolina Opportunity Zones

Note. From https://public.nccommerce.com/oz/
The Opportunity Zones should attract a diverse set of investors as there are few limits$^2$ in where and what you can invest in within an Opportunity Zone tract (Table 4).

Table 4

*Sample Opportunity Zone Areas*

<table>
<thead>
<tr>
<th>Sample Zone Areas</th>
<th>Sample Zone Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban, Small Town, Suburban &amp; Rural Tracts</td>
<td>College Towns: Centers of Innovation &amp; Economic Generators</td>
</tr>
<tr>
<td>Native American Lands</td>
<td>Areas primarily focused on Renewable Energy Production</td>
</tr>
<tr>
<td>Areas with Incubators &amp; Accelerators</td>
<td>Areas with Federal Laboratories</td>
</tr>
<tr>
<td>Areas with Single Family, Multi-Family and Commercial Real Estate</td>
<td>Areas Near Airports</td>
</tr>
</tbody>
</table>

**Section 1.3: Opportunity Zone, Economic Development and Community Development Actors**

In the beginning, the governor of each state played an important role in the selection of Opportunity Zones within the region. The governors used two different approaches in designating zones: (1) Bottoms Up - delegation to municipal leadership, or (2) Top Down – state lead identification. The U.S. Department of Treasury reviewed and approved each state’s Opportunity Zones selection. The Governor then delegated all local Opportunity Zone project management responsibilities to each municipal leader.

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$^2$ Investor cannot invest in sin businesses is any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off-premises
While many actors have a vested interest in economic development within their communities (Table 5) few are qualified to deploy capital within Opportunity Zone tracts. The primary actors required for Opportunity Zone projects are project sponsors, fund managers, state & local governments and private investors (Table 5). I try to identify the actors required to leverage the Opportunity Zone program for equitable development in Chapters 4 and 6.

### Table 5

**Economic and Community Development Actors**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Development Corporations (CDCs)</td>
<td>501(c)(3) non-profit organization that serves the needs of low-income and underserved populations (e.g. affordable housing, etc.)</td>
</tr>
<tr>
<td>Community Organizations (COs)</td>
<td>Formal and informal entities lead by local residents interested in providing critical services to the community (Community Action Agencies)</td>
</tr>
<tr>
<td>Community Development Financial Institutions (CDFIs)</td>
<td>Financial institutions (e.g. bank, credit union, LISC) that supports community development</td>
</tr>
<tr>
<td>Development Finance Agencies (DFAs)</td>
<td>Public or semi-public entity that provides or supports economic and community development through financing programs</td>
</tr>
<tr>
<td>State &amp; Local Governments</td>
<td>State, county and city governments regulatory frameworks for community development</td>
</tr>
<tr>
<td>Philanthropic and community foundations</td>
<td>Grant funding organizations that support local communities</td>
</tr>
<tr>
<td>Private/ Public Companies</td>
<td>Family Offices, Pension Funds and Corporate entities investing and building within local communities with private dollars</td>
</tr>
<tr>
<td>Leaders of Anchor Institutions</td>
<td>Hospitals, universities, faith-based organizations and other institutions within or adjacent to Opportunity Zones</td>
</tr>
<tr>
<td>Project Sponsor</td>
<td>Individual or developer designing Opportunity Zone project</td>
</tr>
<tr>
<td>Fund Manager</td>
<td>Individuals managing the Opportunity Fund and soliciting investments</td>
</tr>
<tr>
<td>Private Investors</td>
<td>Individuals investing and building within local communities with private dollars</td>
</tr>
</tbody>
</table>

*Note.* Opportunity Zone actors are highlighted in yellow. From actor grid in Appendix A.
The Homestead Act of 1862 “protects the Government, it fills the States with homes, it builds up communities, and lessens the chances of social and civil disorder by giving ownership of the soil, in small tracts, to the occupants thereof. It was copied from no other nation’s system. It was originally and distinctively American, and remains a monument to its originators.”
(Williams, 2000, p.15)

The Opportunity Zone program is very new. It will take time to understand the type of impact this legislation will have on distressed communities. The United States has a long history of placed-based development programs. A brief review of a few past programs is important as the Opportunity Zone provision will be added to this legislative history. The success and failures of these different program structures will inform future economic development policy.

**Section 2.1: Economic Development in The Beginning**

In the 19th century, place-based national attempts to encourage local development were dependent on the disposal of the public lands—through grants of land for schools and universities, grants of land to encourage the building of railroads\(^3\) and grants to individual settlers through the Homestead Act of 1862. The Homestead Act gave away rural land to persons who would farm or otherwise improve it. It was one of the first domestic economic development policies in the United States and with minor revisions lasted over 75 years. While the Homestead Act was a land policy its lasting social and economic impact across the United States cannot be overlooked. In the United States there are between 50 to 90 million living Homestead descendants (Williams, 2000). This is an impressive number of beneficiaries of an economic policy passed over 150 years ago.

\(^3\)The railroad land grants were given between 1850 and 1872. The goal was to promote railway construction and usually included twenty- or fifty-mile strips of land.
Initially forced to find ways to generate revenue and build social infrastructure, the United States Government developed land policies\(^4\) that favored the wealthy and speculators. Over time, the federal government experienced limited success with this approach to revenue generation, as enforcement of the laws was inconsistent and investment in cities became more attractive for the wealthy. When added to a reduction in national debt and the rising concern of concentrated power structures, the United States government decided to develop a land policy targeting small landowners (Williams, 2000).

Over the course of 21 years (1841-1862)\(^5\) the federal government developed incremental policies that allowed squatters and small landowners to purchase land. In 1862 Abraham Lincoln signed the Homestead Act into law, giving anyone who was a “head of household, a military veteran or over 21 years of age” rights to secure “160 acres of unappropriated land as long as they had not borne arms against the United States” (Williams, 2000, p. 24). While the policy had its nuances\(^6\) this policy would impact lives over generations as “the government was not simply giving away land, but rather the opportunity for upward mobility and a more secure future for oneself and one’s children” (Williams, 2000, p.30). Land, at the time, determined the level of access a man and his family could have within the community. It was today’s equivalent of a college education.

Over the course of the 75-year history of its existence, the Homestead Act can be credited with driving development across the western frontier and deep south. In this time over 1.5 million households were given title to 246 million acres of land.\(^7\) The Homestead Act, while

\(^{4}\) The initial policies of United States like: (1) land ordinance of 1785 and (2) Northwest Ordinance in 1787 were established to develop local states, governments, schools and generate revenue for the federal government (Williams 2000)

\(^{5}\) The Preemption Act of 1841 and The Graduation Act of 1854 allowed squatters to purchase land at low prices (Williams 2000)

\(^{6}\) The policy, while open to anyone, was passed during the Civil War when over 4 million black slaves did not qualify as citizens. When the Emancipation Proclamation was signed freed black’s and women’s access to the policy was at the discretion of local leadership. (Williams 2000)

\(^{7}\) The acreage quoted is almost as great as the total acreage of Texas and California combined (Williams 2000)
primarily a land policy, was one of the first economic and community development policies in the United States. The primary act of providing real assets to small farmers allowed communities to spring up across the country. These communities established local schools, churches and small businesses that thrived over the course of decades. Most importantly, it established a middle class that was not seen in many other parts of the world.

While imperfect in its application and only available to white males, The Homestead Act presented one of the first opportunities for the common citizen to own real assets and was a driving force in attracting investment on the western frontier (Williams 2000). The influence this one policy had on the American psychology of land ownership and generational wealth transfer is pervasive to this day. Historically, many of the economic and community development policies have significant elements of land policy associated within their construct. Whether through Community Land Trusts or Department of Agriculture incentives, land matters to economic and social mobility across the United States.

**Section 2.2: Moving Beyond Homestead**

Labeled a land policy, the Homestead Act was a legislative program we would today consider both economic and community development. It provided the foundation for all of the necessary elements required for a thriving community: (1) home ownership, (2) jobs, (3) schools, (4) community participation and (5) thriving local economy. It was a feat few other policies have come close to achieving. While the Homestead Act taught some important ways to develop policy to move economies forward, Title I of the Housing Act in 1949 “taught what not to do” (Summer, 1986, p. 3).

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8 A community land trust is an entity that owns local land and sells rights to those within the community to build homes on the land at a certain price. When that homeowner decides to sell that home the land is maintained by the trust and only the structure is transferred.
Title I of the Housing Act of 1949 was an ambiguous, divisive and highly convoluted federally funded program designed to support urban development throughout major cities within the United States. The Housing Act appropriated federal dollars to assist in urban redevelopment by extending grants, loans and advances to local leaders pursuing urban redevelopment. It expanded who could access Public Housing and FHA mortgage insurance. It kicked off over 25 years of intense battles for the soul of each city and brought to light the “limitations inherent in federal policy” (Summer, 1986, p. 7). The ambiguity of the policy left many people defining Urban Renewal in their own way and, without a specific mandate for affordable housing, many cities decided commercial development was a far better proposition for winning “a city a reputation for renewed vitality” (Summer, 1986, p. 15). It also did not hurt the federal government appeared to favor these commercial projects by allocating more money to them.

At inception, the program was able to accommodate the interest of various actors and passed through congress “because different groups of people, like blind men feeling the elephant, made entirely different assumptions as to the essential nature and purpose of [the] legislation” (Summer, 1986, p. 18). Officials and business leaders from many of the major cities across the United States developed grand plans for improving urban blight. Over time, the programs complexity, at times taking ten years to complete a project from start to finish, and under-performance in stimulating progress within some of the most distressed parts of the city earned it “at least as much criticism as applause” (Summer, 1986, p. 19). The criticism was focused on the program’s overwhelming tendency to be viewed as “welfare program for the wealthy”

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9 “Central- city business interests viewed it as a means of boosting sagging poverty values; mayors and city councils perceived it as a tool to increase tax revenues; social welfare leaders hoped it would clear slums and better living conditions of the poor and, more specifically, advocates of low- and moderate-income housing thought it would increase the stock of decent, affordable dwellings in the central cities”(Summer 1986)

10 A number of cities refused to participate in the program (e.g. Fort Worth, Dallas, Houston and Omaha)
(Summer, 1986, p. 21) and not a program of progress and prosperity for those residents within distressed communities – who were more often than not poor and people of color. Some residents felt like urban renewal was really just “negro removal” (Summer, 1986, p. 24). Even when programs were explicitly designed to develop affordable housing for minority communities, residents felt these programs simply incentivized people of color to segregate themselves from the white affluent communities.11 The program became a poster child for displacement of the poor and enrichment of the wealthy. A few cities did successfully gain funding and complete projects. One of the most successful renewal chiefs was Robert Moses of New York City.12 A notable accomplishment both in development but also in bad taste as he apparently had no regard for esthetics. Yet, “even successful projects were open to criticism” (Summer, 1986, p. 17). Jane Jacobs13 became a notorious outspoken critic of urban renewal and did not believe it accomplished any of the revitalization it had intended to.

Urban renewal was a great lesson in what could go horribly wrong when federal programs become all things to everyone and bulldozer-hungry developers level community blocks with total disregard for the community at large and its history. It illustrated the need for a collaborative approach to community development and led to the Community Development Block Grant (CDBG) program in 1974, Urban Development Action (UDAG) in 1977 and eventually the Empowerment Zones and Enterprise Communities in the 1990s. The failure of urban renewal also began to shift the focus from federally funded programs to tax incentives. Urban Renewal uncovered some important truths about economic and community development and has influenced policies since then.

11 All black housing in many cities like New York (e.g. Longwood, Garden Valley) and others provided decent housing but ultimately maintained a purposeful and open secret of racial segregation within the city. (Summer 1986)
12 “By the end of 1959, Moses had completed 7,800 Title I dwelling units, and 7,400 more were under construction” (Summer 1986)
13 Author of The Death and Life of Great American Cities
Section 2.3: Leveraging the Tax Code Part 1 – Enterprise Zones

The pitfalls of Urban Renewal moved the economic and community development policy focus from large scale federal funding programs to more localized grant and tax abatement incentives driven by state and local development officials. One of the first of these new tax-based programs in The United States was Enterprise Zones.\textsuperscript{14} These were created by a number of states in the 1970s and by the federal government in 1993. The program aimed to support economic and community development through local state tax incentives for such things as job creation and affordable housing. Additionally, at a federal level a federally authorized Enterprise Zone would allow local officials to fund programs and attract local investment with tax-exempt bonds. The Enterprise Zone also included requirements for local government and community participation. The Enterprise Zone required all applicants:

To engage in an inclusive strategic planning process that included local government(s), community organizations, local businesses, and, ideally, residents within the proposed zone-designated area. In addition, the legislation required applicants to focus on the four key principles [of] economic opportunity, sustainable community development, community-based partnerships, and strategic vision for change. (Oakley & Tsao, 2006, p. 34)

Where the Homestead Act and Urban Renewal were uniquely American, Enterprise Zones where a creation of the British.\textsuperscript{15} The original idea was to “use geographically targeted tax incentives and regulatory relaxation to encourage job creation, business activity, and environmental improvement in distressed urban areas” (Oakley & Tsao, 2006, p. 21). The states initially modified the model to suit needs within their locally distressed communities.

Over 80\% of states\textsuperscript{16} had Enterprise Zone programs in place when the first federal legislation was passed in 1993 (Engberg & Greenbaum 1999). The federal and individual state
Enterprise Zone programs are symbiotic, but implementation and incentives vary by state. Each state has a central coordination and administration office that helps select zones and administer requisite reporting. Additionally, each zone has local and city and county governance (Engberg & Greenbaum, 1999). “Actual zone benefits made available to qualified zone businesses (and sometimes individuals) can [also] vary considerably from state to state” (Engberg & Greenbaum, 1999, p.5).

The aforementioned variability in implementation has made it hard to measure the aggregate impact of Enterprise Zones across the United States. While some socioeconomic gains were made in areas, urban areas like Chicago and Detroit experienced little to no impact from zone designation and investment (Oakley & Tsao 2006). Additionally, “despite requirements for community participation, communities were rarely at the center of goal setting, project design, and implementation” (Oakley & Tsao, 2006, p. 23).

While favored by some in the economic and community development policy community, Enterprise Zones continue to be challenging to measure and understand. Yet the program has inspired derivative policies and influenced the construct of the New Markets Tax Credit Program we will discuss further in the subsequent section.

Section 2.4: Leveraging the Tax Code Part 2 – New Market Tax Credit

In 2000, the Community Renewal Tax Relief Act was passed with the hopes of increasing investments in distressed urban, suburban and rural areas across the Unites States. Specifically, the New Market Tax Credit (NMTC) program, within the tax relief act, was “designed to combine public and private sector resources in order to [attract] $15 billion in new investments to impoverished rural and urban communities over a span of seven years” (Rubin &

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17 Chicago and Detroit poverty rates during these periods of Enterprise Zone investment remained at or around 40%
18 Renewal Communities
The program was the amalgamation of predecessor economic and community development policy that had both succeeded and failed over the course of 138 years since the passing of the Homestead Act.\textsuperscript{19}

The NMTC program not only required state and community actor participation but also advanced the role of financial intermediaries\textsuperscript{20} within economic and community development by introducing the creation of Community Development Entities (CDE). Most importantly, the program leveraged tax credits and no direct funding from the federal government (Abravanel et al., 2013). Legislatures had learned that “tax credits [were] more palatable politically and easier to enact because they do not count as a direct budgetary expenditure. Instead, they are an opportunity cost to the federal government – revenues that would have been collected were it not for tax credits” (Rubin & Stankiewicz, 2005, p. 17). The tax credits included in the program were designed to accumulate over a 7-year period. A five percent tax credit would be given in the first three years and then six percent over the course of the following four years (Abravanel et al., 2013). The tax credits were administered by the U.S. Treasury Department’s CDFI fund and all CDE’s were required to apply for funding. An application process that CDE’s would later come to find cumbersome and costly.\textsuperscript{21}

Over the course of the past 20 years, approximately $60 billion in tax credits have been awarded (CDFI, 2021) and thousands of projects financed across the country. Yet challenges exist with measuring the impact of these projects within distressed communities and obstacles are still high in attracting private investor dollars. Program participants have expressed the

\textsuperscript{19} Over this 135 year period additional economic and community programs not highlighted in this chapter but in Chapter 3 include The Low Income Housing Tax Credit, Historic Tax Credit and more.

\textsuperscript{20} The Community Development Block Grant and Low Income Housing Tax Credit programs introduced the concept of local, state and municipal, intermediaries into community development (Rubin & Stankiewicz 2005)

\textsuperscript{21} The Lenders for Community Development estimated they spent 160 hours and nearly $100,000 in staff, consulting and legal fees in 2003 (Wells 2005)
importance of “find willing and NMTC-savvy investors” (Wells, 2005, p. 6) along with the right projects to meet the NMTC criteria -- a criteria that narrows the list of potential investments.\textsuperscript{22} While the NMTC program continues, many legislatures were in pursuit of increasing the investments within distressed communities and thought a less cumbersome program could resolve some of the hesitation and limitations of NMTC. The Opportunity Zone program was passed with a direct eye towards solving these challenges and tapping into the more than $2.5 trillion in capital gains dollars in the United States.

\textsuperscript{22} NMTC test require that at least 40 percent of employee services and 50 percent of revenues be generated in a qualified NMTC census tract (Wells 2005)
Chapter 3 – Economic Development Incentives Today

“We may have similar goals in life, but not the same opportunities. Where you live matters. We believe that when opportunity is within reach, people’s lives improve.” (Opportunity, n.d.)

Economic development programs in the United States is deeply implanted within our communities and the legislative process. The programs evolved and over time moved from federally to privately funded. The outcomes of these policies vary greatly but continue to inform future legislation. The Opportunity Zone program is the newest approach to economic development in our country. The program, along with other incentives, have a chance to entice more investors to invest in distressed communities and have lasting economic and social impact.

Section 3.1: Fueling Opportunity Zones

The Opportunity Zone legislation was designed to drive investments within distressed communities over a longer period. Historically, these communities have struggled to attract investment without incentives like New Market and Low-Income Housing tax credits. Access to local investment through community banks has decreased significantly. Over 43% of community banks have closed over the past 20 years (Figure 5) and mission-oriented capital does not reach some of the hardest hit counties across the United States.
The Opportunity Zone’s aim is to: (1) provide incentives for investors with substantial capital, (2) concentrate capital to maximize impact, (3) reward patient capital, (4) allow investments to move at the speed of the market and (5) give investors a long-term stake in a communities’ future. Proponents of the program believe the flexibility of the incentive will activate economic activity within distressed communities. Legislatures believe they have removed significant barriers to investor interest when you combine the flexibility of the program with the uncapped investment potential and simplicity of self-certification. The Opportunity Zone program will be the largest community development initiative in the last 30 years if the estimated $1 trillion investment projections, stated by the US Treasury, become a reality (Coes
and Loh, 2018). The program, while in its infancy, has the potential to impact economically deprived communities for years to come.

**Section 3.2: The Opportunity Fund**

The Opportunity Fund\(^{23}\) is an entity which makes investments in either: (1) Qualified Property or (2) Qualified Business. A qualified property is a purchased property, new or substantially improved, within a qualified opportunity zone. A qualified business is one that either invests 70% of its capital in a qualified property or does 50% or more of its business within the qualified opportunity zone.

The opportunity fund can also combine the Opportunity Zone program with other tax benefits. A few of these benefits include the Low-Income Housing Credit, New Markets Tax Credit and Renewable Electricity Credit. The Opportunity Fund has the potential to provide lucrative incentives for investors to make long term commitments to economically impoverished communities when stacking these incentives. The process of stacking can make the difference in whether a project sponsor can raise sufficient capital for equitable development projects. The combined incentives can help a project sponsor meet investors’ return expectations.

**Section 3.3: Low-Income Housing Credit**

The Low-Income Housing Credit (LITHC) program was established with the 1986 Tax Reform Act. The program was created to incentivize investments in low-income communities and increase the number of affordable housing (Keightley, 2019). LITHC is the longest running program and only program to bring newly developed affordable housing to market. Over the

\(^{23}\) A Qualified Opportunity Zone Fund has to invest and maintain at least 90% of all fund assets into a Qualified Opportunity Zone. Additionally, the fund must commit to substantially improving any Qualified Opportunity Property or Business. The substantial improvement has to be equal to the initial investment in the project.
course of the program’s history, over 45,000 properties have been placed in service, with over 2.97 million housing units available to low-income tenants (Gold, Nicole & Scally, 2018).

The LITHC provides incentives to developers and investors by making two types of credits available: (a) a 9% credit and (b) a 4% credit. Each credit allows a developer to generate a stream of annual tax credits that can be sold to investors or kept (Keightley, 2019).

Traditionally, developers have sold these credits to investors to finance 75% to 80% of the development cost. At first, these transactions were completed with traditional high net worth investors but over the course of time has moved to mostly include corporate entities such as banks motivated by the Community Reinvestment Act and insurers.

The LITHC is a fairly complex program with many actors involved. At the federal level, the Internal Revenue Service administers the program while the U.S. Department of Housing and Urban Development (HUD) sets standards. At the state level, the Housing Finance Agency sets the annual Qualified Allocation Plan that decides yearly LITHC allocations throughout the state and administers the application process. Private actors such as developers and investors initiate investment focus and drive housing supply, while attorneys and property managers ensure compliance and day-to-day availability of housing stock.

It is important to review a few inherent challenges the LITHC program has historically had when measuring its social impact. First, LITHC units are only temporarily designated as affordable and require significant investment to extend benefit to the community. Second, LITHC does not address the needs of the lowest income communities. Third, LITHC can increase segregation and concentrations of the poor and disenfranchised (Gold, Nicole & Scally, 2018). Due to a lack of consistent measurement by any government agency, LITHC, while
supported by a bi-partisan House and Senate, struggles to define its true impact on local communities.

It is difficult to stack LITHC with Opportunity Zone incentives. The programs are aimed at two different private actors. First, LITHC is targeted to banks, who have no capital gains, and other larger corporations while the OZ program is targeted to high-income investors that can rarely take advantage of the LITHC credits. Second, the timing windows do not match as LITHC development takes a substantial amount of time where OZ investors are required to deploy their capital gains in 180 days. Lastly, most LITHC developments lost value in the first 10 years, where OZ developments’ biggest incentive is to capture the greatest amount of non-taxable gains after year 10 (Stanhope, 2020).

While difficult, the bundling of LITHC and Opportunity Zones is possible. A recent development in Maryland was able to combine LITHC, Opportunity Zones and Historic Tax Credits to create 83 new affordable housing units (Economic Innovation Group, n.d.). The LITHC and Opportunity Zone combination also has the potential to increase impact investing across the United States. Impact investors deploy their capital with longer time horizons and below market return expectations.

Section 3.4: New Market Tax Credit

The New Market Tax Credit program was established with the passing of the Community Renewal Tax Relief Act of 2000. The program is administered by the Community Development Financial Institution Fund and the Internal Revenue Service. The CDFI awards New Market Tax Credits to community development entities (CDE) that make investments in distressed communities (Office of The Comptroller of the Currency, 2013). The New Market Tax Credit is

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24 Impact investing is made into funds, corporations and organizations that have an aim to impact the environment and community while generating returns for the investor.
them passed to investors that make a qualified equity investment in the community development entity. The investor can use these credits over a 7-year period. The total credit over this period is 39%. 5% of the credits can be annually applied in the first three and 6% in the last 4 years. The investor may also benefit from other cash flows from the CDE investments.

The CDE typically invest in qualified low-income investments (QLICI). The program has defined QLICI investments as loans or equity investments in qualified active low-income community businesses (QALICB). A loan to a QALICB is the most common form of investment for a CDE. The loan provided is generally below the market rate these businesses would obtain for investments with higher risk profiles. Often the loans make the development or investment in a business more attractive to investors.

The bundling of NMTC with Opportunity Zone incentives could be attractive for investors because the timing of the investment aligns more closely together. Leveraging these two incentives will allow an investor to take full benefit from both programs. At year 7, the project sponsor can seek to refinance the project. This would allow time for investors to take advantage of the 10-year benefit of the Opportunity Zone program. Additionally, over 98% of opportunity zones are eligible for New Market Tax Credits.

**Section 3.5: Rehabilitation Tax Credit**

The foundation for the historic rehabilitation tax credit was developed with the National Historic Preservation Act of 1966. The Preservation Act supported the funding required to identify, evaluate and categorize historic buildings across the United States. In 1976, the Tax Reform Act provided tax incentives to renovate these historic buildings. The 1976 provision provided accelerated depreciation of historic buildings. A 1979 revision provided a 10 percent credit for rehabilitation projects on buildings 20 years or older. A 1981 revision tiered the
incentive to provide 15% credits for buildings 30-39 years old, 20% for buildings 40 years old or older and 25% for historic structures (Novogradac, 2012).

The Historic Tax Credit was revised with The Economic Reform Act of 1986. In 1986, the credit was changed to two tiers: (1) A 10% credit for buildings older than 1936 and (2) 20% credit for buildings that are designated by the National Park Service as historic. In the 2017 Tax Cuts and Jobs Act 10% rehabilitation tax credit was repealed.

The tax credit is administered jointly by the Department of The Interior and the Department of the Treasury. A building must be certified as a historic structure or in a within a historic district to qualify for the 20% tax credit. A list of these buildings can be found in the Department of The Interior’s National Register of Historic Places.

The building must be a qualified rehabilitated building (QRB) to qualify for HRTC after the initial investment and cannot be sold for five years. In order to be considered a QRB a building must adhere to four criteria: (1) building has to be “substantially rehabilitated”, (2) building has to have been placed in service before the beginning of the rehabilitation, (3) appreciation must be allowable and (4) building must be located in the United States or in a territory or possession of the United States.

While not as complex as the LIHTC, there are several actors involved throughout the HRTC process. The State Historic Preservation Office along with the National Park Services administers the program. The State reviewing applications of already designated buildings. The National Park Services fielding request for new designations. The IRS published the regulations and enforces them.

While the HRTC can be combined within an Opportunity Zone investment, it will be focused on a very small percentage of the opportunities present within the designated areas. A
project sponsor will have to demonstrate a strong familiarity with the process and have a clear plan for rehabilitation and how that might impact the community.

Section 3.6: Renewable Electricity Product Tax Credit

The renewable electricity tax credit (PTC) was enacted in 1992 as part of the Energy Policy Act and is set to expire on January 1, 2021 after 12 extensions to its original 1999 expiration. Over the twelve-year period, it is standard for the PTC to lapse before an extension is passed by Congress. The original Energy Policy Act constrained the credit to wind and closed-loop biomass system generation. In 1999 the Ticket to Work and Work Incentives Improvement Act of added poultry waste generation. The tax credit from 1999 to 2004 allowed qualified generation entities to claim the credit for the first 10 years of production.

In 2004 The American Jobs Creation Act modified the PTC and expanded generation sources even more to include: (1) open loop biomass (including agriculture livestock waste, (2) geothermal energy, solar energy, (3) small irrigation power, and (4) municipal solid waste (landfill gas and trash combustion) (Sherlock, 2020). Yet, these new generation sources are only able to claim the credit for the first 5 years of production. Over time additional sources like hydropower, hydrokinetic, Marine and Indian coal have been added and the 10-year claim extended to all generation sources.

The PTC credit is based on a per-kilowatt-hour (kWh) credit for energy produced. There are typically three tiers of credits: (1) A full credit of 2.5 cents per kWh for Wind (before 2017), Closed-Loop Biomass, Geothermal, (2) a half credit of 1.2 cents per kWh for Open-Loop Biomass, Small Irrigation Power, Municipal Solid Waste, Qualified Hydropower, Marine and Hydrokinetic and (3) 40% credit of 1.0 cents per kWh for Wind beginning in 2019. (Sherlock, 2020).
The administration of the credit is performed by the IRS, similar to the way Opportunity Funds claims are self-reported. The majority of the actors for this credit are commercial entities leveraging the credit to offset production cost and increase investor returns. The technical sophistication of commercial actors seeking the credit must be high. All actors for PTC must have significant specialized experience in the field as will most investors in the business.

It is important to note that the programs above can be combined with the new advantages of Opportunity Zones to make investment even more profitable. For example, while niche, the solar energy credit could be strategically combined with Opportunity Zones as a good portion of zone designations are include large rural tracts that would be attractive to many forms of power generation that can claim the credit. Similarly, in an urban setting, a historic building in an Opportunity Zone can be renovated and receive a substantial tax credit, in addition to the advantages of the Zone.
Chapter 4 – Qualified Opportunity Zone Funds and Projects

“The O.Z. incentive just isn’t deep enough to entice most investors to make impact investments.”
(Tankersley, 2020)

The primary enabler of every Opportunity Zone project is investor capital. The return expectation these investors have help project sponsors identify which economic development incentives to use as many come with varying levels of constraints and can be applied simultaneously. The flexibility of the Opportunity Zone program is spawning new types of projects as well as new kinds of investment funds25. The projects are taking many forms and spanning across a wide range of industries.

The Council of Economic Advisors has estimated there to be approximately 1,500 Qualified Opportunity Funds in the United States (CEA, 2020). Novogradac an industry leading accounting firm with a special practice in Opportunity Zones estimates there are approximately 1,243 (Opportunity Funds Listing, n.d.). For this paper I was able to review over 293 funds and projects26. I found these funds and projects through various publicly available online databases. The funds and projects I reviewed could be divided into two categories. The first category are funds and projects focused on investing in Qualified Opportunity Zone Businesses (QOZB). These types of projects and funds spanned across industries and business types. The second are funds and projects focused on Qualified Opportunity Zone Properties (QOZP). These types of projects and funds focused heavily on multi-family and mixed used development. In both circumstance investors are either looking for market-rate27 or mission-oriented returns28. The

25 To qualify for Opportunity Zone benefits an individual or group of investors must self-certify as a Qualified Opportunity Fund by filing IRS form 8996 and ensuring at least 90% of assets purchased are in Opportunity Zones.
26 A fund can invest 100% of its capital into one project or spread it between multiple projects. In my research I found an even split between single project and multi-project funds.
27 For this project a market rate return project is one focused on achieving 12-16 percent returns.
28 For this project a mission-oriented return project is one focused on achieving 3-7 percent returns.
following two sections highlight a sampling of the various types of funds and projects analyzed. Every attempt to appropriately categorize the funds and projects was made. At times the funds and projects highlighted will blend Qualified Opportunity Zone Business and Property investments into one project or fund.

**Section 4.1 Qualified Opportunity Zone Business Funds and Projects**

One third of the 293 funds and projects reviewed were focused on Qualified Opportunity Zone businesses. 99\% of the funds and projects focused on Qualified Opportunity Zone Businesses sought capital from investors expecting market-rate returns. Only 1\% of these funds and projects were focused on raising capital from impact investors willing to accept mission-oriented returns.

**Section 4.1.1 Market-Rate QOZB Funds and Projects**

In my research I found QOZB projects and funds in traditional industries: (1) Technology Startups, (2) Agriculture, (3) Renewable Energy and (4) Manufacturing and non-traditional industries: (1) Sex Toy Manufacturing, (2) Hunting and (3) Gold. The funds and projects were sponsored by both large and small institutions. Less than 1\% were sponsored by individuals.

**Section 4.1.1.1 Technology Startups**

Washington based BitCapital Opportunity Fund (Digital Asset Mining Cloud Computing, n.d.) plans on investing over $50 Million in the Magic Mining LLC startup and for minority interest in cloud computing companies. The fund has only been authorized to raise an initial $10 Million. The Magic Mining company has digital asset mining facilities (e.g., Bitcoin mining) across various Opportunity Zones within the United States. No information was publicly available on the Magic Mining company. The mining facilities will be chosen for their
proximity to renewable energy sources. The new venture anticipates adding over 100 jobs across the various Opportunity Zones. No details were available on the starting salaries for the new jobs. The funds co-founders believe utilizing Opportunity Zones will allow the fund to “create a new wave of digital transformationalist” (Bit Capital, 2021). The fund is focused on generating market-rate returns as Bit Capital projects annual returns of 20% or greater (Bit Capital Opportunity Fund Investment, n.d.). I found no evidence of equitable development goals. It is doubtful the jobs created will have little to any impact on distressed communities as most digital asset mining operations are in remote areas. Additionally, the potential impact on any one community would be small as the 100 jobs are spread out across various regions within The United States. 

Section 4.1.1.2 Agriculture

Texas based First Harvest Opportunity Fund (First Harvest OZ Fund, n.d.) plans on investing $100 Million into advanced indoor farming across the United States ($100 Million First Harvest, 2021). Leveraging a similar approach to BitCapital, First Harvest will invest in indoor farming facilities and distribution centers in Opportunities Zones across the United States. The team has identified a way to produce certified organic produce leveraging Nutrient Film Technique’s (NFT) that require little to no soil or major substrate. The investment team projects that over 1,000 direct and 1,900 induced jobs will be created when all capital is deployed across the Opportunity Zones. The investment team also projects the investment to substantially decrease the impact on the environment as the farming techniques deployed will increase shelf life and reduce the carbon footprint of the harvested produce. The indoor farming and distribution locations have not started operating. The First Harvest Opportunity fund is focused
on market-rate returns as First Harvest projects annual returns of 20% or greater (First Harvest Opportunity Fund Investment, n.d.).

The St. Croix based USVI Hemp Farm Opportunity Zone Fund (Javelin Securities, 2019) is a $9 million investment in an industrial hemp farm located in St. Croix U.S. Virgin Islands. The industrial hemp farm will work with companies to process and produce CBD oil and Isolates (Javelin Securities, 2019). The fund is the only opportunity fund in my research to combine the Opportunity Zone and U.S. Virgin Island Economic Development Commission Tax Incentive program. The USVI EDC allows companies to minimize corporate, sales, property and excise taxes in addition to a significant reduction in customs duty. The USVI Hemp Farm Opportunity Zone Fund was created to support one project and will not include other investments. No mention of community impact or claim of job creation was made in any investor material I reviewed. The USVI is focused on market-rate returns as the USVI Hemp Farm Opportunity Zone Fund projects annual returns of 60%, of which 8% is preferred 29.

Section 4.1.1.3 Renewable Energy

The Wyoming based Deep Green One Energy Opportunity Fund (Deep Green Qualified Opportunities, n.d.) is a closed fund 30 investing in oil and gas production that leverage new extraction technologies. The fund is run by veteran oil and gas executives. The team has made investments in Strata Energy One, Xtech and Woodger Energy One. Strata and Woodger are oil and gas production projects focused on leveraging the Electro-Static Pulse Stimulation extraction process. The Electro-Static Pulse Stimulation process allows projects to use new extraction techniques that are more environmentally friendly while increasing profitability. The Xtech is a technology company developing hydrocarbon solutions for oil and gas production. No mention

29 Preferred returns are profit distributions from cash flows before considering other payouts
30 For the purposed of this project a "closed fund" is one that is not open or promoted to the public
of equitable development goals or claims of job creation were stated in any publicly available material I reviewed. The fund does not publish fund size, a prospectus or return projections.

Section 4.1.1.4 Manufacturing

The Central Florida DPI Opportunity Fund (DPI Opportunity Fund) is a $2.5 Million fund developed by Dispenser Packaging Incorporated. Dispenser Packaging Incorporated is a leader in niche dispense packaging systems. The fund is a single project fund dedicated to the construction of a new DPI manufacturing facility. The fund will help the company expand their manufacturing footprint by 407,400 SF. The company makes general claims of job creation in rural communities but does not provide projections. The fund is primarily focused on attracting investors seeking market-rate returns and does not state an equitable development goals. The offering is a 7.5% convertible preferred stock.\textsuperscript{31}

Section 4.1.1.5 Non-Traditional

Of all the non-traditional funds and projects reviewed the following represent the most creative applications of the Opportunity Zone program. Little to no detail was available on the funds. It appears managers and sponsors do not seek to bring attention to themselves, nor do they have any intent to engage in equitable development.

AlphaMaven Auric Opportunity Fund (Auric Opportunity LLC, n.d.) and U.S. Gold Opportunity Fund (U.S. Gold About Us, n.d.) are closed funds focused on investing in Qualified Opportunity Zone Operating businesses that hold CME-eligible physical gold. Little to no data is available on the fund structure, returns and there was no mention of any equitable development goals.

\textsuperscript{31} A convertible preferred stock is a type of hybrid security where the company commits to a certain dividend, in this case 7.5% and an option to buy a share of the company at a certain price. This type of offering has the potential to yield substantial returns.
Arkansas based Tigerback Ventures is a single project opportunity fund investing 100% of fund capital into the Tigerback Lodge (https://tigerbacklodge.com). The lodge is based in Ashdown, Arkansas and specializes in outdoor experiences. The organization provides hunting packages for both individuals and corporations. Similar to AlphaMaven and U.S. Gold little to no data is available on the fund.

An Oregon a sex toy manufacturer developed a $2 Million fund to raise money for a manufacturing facility expansion. “Funds will go to the commercialization of Osé, the only product designed for hands-free blended orgasms. Using advanced patent-pending micro-robotics, Osé mimics the sensations of a human mouth, tongue, and fingers, for an experience that feels remarkably like a real partner” (DiCarlo, 2019). No other information was available on the fund or project.

Section 4.1.2 Mission-Oriented QOZB Funds and Projects

Qualified Opportunity Zone Business funds and projects seeking mission-oriented returns were difficult to find within the 293 funds and projects I researched. A greater portion of the mission-oriented projects I researched were focused on Qualified Opportunity Zone Properties. The two funds and projects below provide good examples of creative funds and projects seeking both economic and social impact.

The Arizona based Women’s Innovation Fund (https://wifaxvc.com/) invest in women lead Qualified Opportunity Zone Businesses focused on sustainability, blockchain technologies and AI. In winning the 2019 best qualified opportunity funds managers award in 2019 the founders described the fund as an:

“an Opportunity Zone venture fund with three (3) pillars. First, we use co-working and acceleration techniques to help grow emerging technology companies (Blockchain, Artificial Intelligence, Augmented Reality and Internet of Things). Second, we invest in gender-balanced C-Level companies. Third, we use sustainability models to monetize our venture fund (environmental, gender-lensed, job-creation, undeserved founders and communities)” (Women’s Innovation Fund Accelerator, 2019).
The fund seeks to invest in 100 women lead startups that graduate from the Women’s Innovation Fund Accelerator. The funds co-founder Barbara Bickham told Forbes magazine “We are using social, environmental and economic impacts to help monetize our fund, measure our community impact, and attract new types of companies for our pipeline” (White-Klosocky, 2019). The fund will require the startup to establish or relocate a corporate base within an Opportunity Zone prior to funding. The accelerator has launched 15 gender balanced companies to date. 7 of the 15 are blockchain companies. The fund did not disclose projected returns or any long-term community engagement plans.

The Urban Array Opportunity Fund (Urban Array Opportunity Funds, n.d.) is an opportunity fund affiliated with the Urban Array Foundation. The Urban Array Foundation is a non-profit providing black and indigenous people of color (BIPOC) entrepreneurs and non-profit founders capital to start new ventures. The foundations flagship development project is the Array Innovation Exchange and Museum of Black Technology and Engineering in South Chicago (Figure 6).
Note. The Array will be home to a startup venture studio and accelerator, vertical farm, digital media studios, rooftop restaurant, makerspace and fabrication lab and mental and physical health center. From https://urbanarray.org/exchange/. In public domain

The Urban Array Opportunity Fund will be part of the flagship venture studio. The fund will invest in developments across three initial Qualified Opportunity Zones: (1) Rivertown in Detroit, MI, (2) East Garfield Park in Chicago, IL and (3) Englewood in Chicago, IL. The initial list of Qualified Opportunity Zones offers a chance to combine state, federal and local incentives with the Opportunity Zone program as all three regions can leverage NMTC, LIHTC and municipal tax credits. The fund will also invest in both Qualified Opportunity Zone Properties and Qualified Opportunity Zone Businesses with the initial $5 Million the fund is raising from investors. The fund did not disclose projected returns. The fund did introduce a social, enterprise, asset and management (SEAM) open-source community enterprise development and growth tool kit. The tool kit is designed to allow project sponsors to:
measure community impact, (2) access a database of local resources, (3) connect with
government and local community leaders and (4) close any skill gaps.

Section 4.2: Qualified Opportunity Zone Properties Funds and Projects

Two thirds of the 293 funds and projects reviewed were focused on Qualified
Opportunity Zone Properties. 75% of the QOZP funds and projects focused on generating
market-rate returns. Almost all the funds and projects seeking market-rate returns were focused
on Commercial Real Estate, Healthcare, Hospitality, and Industrial projects. Additionally, many
funds invested in both QOZB and QOZP projects. 25% of QOZP funds and projects were
focused on raising capital from impact investors willing to accept mission-oriented returns.
Almost all of the funds and projects seeking mission-oriented returns were multi-family and
mixed-use development projects.

Section 4.2.1 Market-Rate Healthcare Projects

Universal Labs Opportunity Fund (https://universallabsfund.com) is an Oregon based $50
Million life sciences technology fund aimed at commercializing natural medicines. Universal
Labs is a blended Qualified Opportunity Zone Business and Property fund. The fund seeks to
invest in 3-5 commercial healthcare facilities and 8-12 development stage companies in botanical
medicines, probiotic medicines and immunotherapy. It currently has QOZB investments in
development stage entities like Summit Life Sciences, American Bio Technologies and Genbio.
Additionally, it has QOZP investment in Satori Gardens a 100-acre wellness center in
McMinnville, Oregon. The fund did not disclose return projections or plans for equitable
development.
Rainbird Development Company is a single project opportunity fund supporting the Rainbird Village Cooperative (https://www.rainbirdut.com). The Cooperative will develop a regenerative municipality in Cedar City, Utah and build a prosperity generator (Figure 7).

**Figure 7**

*Prosperity Engine*

![Prosperity Engine Diagram](image)

*Note.* “It’s like a multi-cylinder engine that must be firing continuously on all cylinders for smooth and efficient operation. And each cylinder or component must perform its function, as well as contribute to the overall performance of the whole towards continuous improvement. Anything omitted will result in a failure point and an externality at the expense of others.” (Village Life, n.d.). From https://www.rainbirdut.com/village-life. In public domain

The Cooperative is structured after the Mondragon Cooperative (Mondragon Experiment, n.d.) and is intended to support the development of regenerative technologies through an employee-owned community that includes: (1) Employee housing, (2) ecotourism village, (3) incubator, (4) holistic health center and (5) Credit Union. It has a complex business structure that will include partnerships with private corporations, universities and municipalities. The Development Company will focus on acquiring the land, building the community and
infrastructure. The Rainbird Village Cooperative is the only entity in my research that is using the Opportunity Zone program to fund the development of a Village focused on the incubation of medicines. The fund did not disclose returns. The project is unique and has elements of equitable development within the construct of the Village but does not appear to have the potential to impact any existing distressed communities. The benefits reviewed will be exclusive to Village residents (no residents currently reside in the community).

Section 4.2.2 Market-Rate Hospitality Projects

Hospitality is the most popular Qualified Opportunity Property fund and project category with over 65 funds dedicated to this industry. A good portion of the funds are focused on specific regions across the United States, Puerto Rico and the U.S. Virgin Islands. It should be noted that 95% of Puerto Rico was designated a Qualified Opportunity Zone and 14 tracts were designated across the U.S. Virgin Islands. Almost all the funds and projects have a standard construct of development and are a mix of concepts like The King Tide Capital Opportunity and The Gateway Opportunity funds highlighted below. I was not able to find any unique fund or project designs.

The King Tide Capital Opportunity fund is a $100 Million closed fund investing 100% of its capital in The Mighty Union corporation (http://www.themightyunion.com). The fund is focused on supporting The Might Union’s expansion by investing in the development of boutique hotels and restaurants in Opportunity Zones located in Portland, Oregon; San Antonio, Texas; Hawaii and St. Thomas. The fund did not disclose any return projections. It does not have any equitable development goals.

The Gateway Opportunity Fund Corporation (Gateway Opportunity Funds, n.d.) is an asset manager focused on Opportunity Zone investments across real estate asset classes. The
Gateway Florida Lakes RV Resort Opportunity Fund (http://floridalakes.gatewayopfunds.com) is a $11 Million single project fund aimed at developing a 562 RV site resort. The resort includes over 100 acres, 15,000 square foot clubhouse, pickle ball court, pool, bowling lanes and commercial kitchen. The Gateway Marina and Resort Opportunity Fund is a $400 Million single project fund aimed at developing a 70-acre marina, yacht club, hotels, indoor water park and convention center in St. Louis, Missouri. Neither fund disclosed any return projections.

The Gateway Opportunity Fund Corporation funds did not state any equitable development goals.

Section 4.2.3 Market-Rate Industrial Projects

PHT Opportunity Fund (Fund I, n.d.) is a multi-project $100 Million fund focused on the redevelopment of precooling and cold storage centers in Salinas Valley, California. The fund is taking a unique approach to this multi-project investment by allowing investors to invest in a standard private equity, non-opportunity fund, or within an opportunity fund. PHT will then pool capital from both funds to develop a 24-acre and 36-acre precooling campus. The campus has a rich history of supporting agriculture in the Salinas Valley. The project team will seek to maintain that history while redeveloping the two facilities for the future with new renewable energy sources and increase automation. The investment seeks to generate market-rate returns of 14.65% or higher, of which 8% will be preferred returns. The fund nor project state equitable development goals.

Section 4.2.4 Mixed-Use and Multi-Family

Mixed use and multi-family is the second most popular Qualified Opportunity Property fund and project category with over 45 funds dedicated to this industry. Almost all the funds and projects have a standard construct of development and are a mix of traditional concepts similar to
Milhaus and Strawberry Fields highlighted below. The developers are either nationally, regionally or locally focused. Additionally, most funds reviewed were closed funds.

Milhaus (https://milhaus.com) is a mixed-use and multi-family development company with a diverse mix of projects across The United States. The company develops, acquires and manages various types of properties. Like many companies in this category I researched, the management team opportunistically invest in Opportunity Zones that were already part of their investment strategy. The team leverages the program as an additive element of their investment offerings to investors seeking market-rate returns. None of the companies like Milhaus have equitable development goals. To date, the group has raised over $300 million in 5 opportunity fund projects and is raising another $200 million aim at Opportunity Zone investments.

Strawberry Fields (https://www.strawberryfieldson.com/) is another mixed-use and multi-family development company focused on Oklahoma City. The company is focused on development projects in downtown Oklahoma City. Like Milhaus, the management team is selectively using single project opportunity funds to support their master development plan for downtown. To date, they have two Opportunity Zone projects. Each project is approximately seeking to raise $6 million and projects to deliver 8% preferred returns to investors. The company does not have equitable development goals.

Section 4.2.4 Mission-Oriented Real Estate Projects

Of the Qualified Opportunity Zone funds and projects generating mission-oriented returns, the successful funds and projects were generally run by well-established project sponsors like SOLA Impact. The leaders of these organizations have built strong local ties within the community, across government agencies and with impact investors. Few funds or projects with completed or active projects were new. A lot of the new funds or projects were struggling to
raise capital. Only one fund, Four Points, I reviewed had a unique approach to equitable development.

SOLA Impact (Sola Projects, n.d.) is a mixed-used developer and property manager focused on affordable multi-family housing in Los Angeles, California. The fund is led by Martin Muoto. He is one of the leaders in distressed community investing and was highlighted in Forbes in 2019 for his success:

“Muoto created SoLa Impact Fund in 2012, aimed at investing in properties in economically distressed areas of South Los Angeles. So he was perfectly positioned to leverage Opportunity Zone legislation. To that end, he recently raised his third and largest fund. His strategy from the start: Earn good returns, while targeting “really tough neighborhoods”, often with properties plagued by many vacancies and a lot of deferred maintenance, renovate them and create decent, affordable housing. “We need to make good returns for our investors and also ensure our tenants lives are improving,” he says. About two-thirds of his tenants receive government subsidies of some sort.” (Field, 2019)

The developer currently has over 1,500 affordable units under management and another 1,500 affordable units under development. The Beehive is a 100,000 square foot commercial and 60,000 square foot open space business campus located in downtown Los Angeles. The Project Triple Main is an 84-unit affordable housing apartment complex serving low-income families in South Los Angeles. The Project Florence is a 31-unit apartment affordable housing and commercial space in South Los Angeles. Sola Impact was selected as Forbes magazine’s 20 leading Opportunity Zone funds (Sorenson Impact, 2020). The fund can keep their projects affordable because of the use of multiple incentives: “Muoto generally finds them through about 25 nonprofits and government agencies that work with disadvantaged populations” (Field, 2019) like the U.S. Department of Housing and Urban Development and the Housing Authority of the City of Los Angeles. The partnerships have been instrumental to Sola’s success.

Four Points Funding (4F Our Opportunity Fund Investing, n.d.) is a closed $200 Million fund with Opportunity Zone investments across emerging communities in Colorado. The
manager has over $140 Million in multi-family Opportunity Zone investments and over $10 Million is campgrounds and hot springs. The Four Points fund itself did not have equitable development goals or disclose return projections. Yet, the team at Four Points is leveraging the returns from the Opportunity Zone fund to invest in startups through The West Slope Angels group. A startup investing community it helped to create and actively manages. West Slope is focused on bringing economic diversity and job creation to rural Western Colorado. To date the West Slope Angel investment group has been able to invest in Campground Booking, Marble Distilling, MountainFlow, HempFoundry and other startup businesses. These startups are creating jobs in a part of the country were many depend solely on seasonal work to support their families. The fund is not only unique in its campgrounds and hot springs investments but also in its approach to equitable development within rural communities.

**Section 4.3 North Carolina Opportunity Zone Funds and Projects**

In addition to the 293 funds I reviewed, I was able to scan all the publicly available databases and identify any funds and projects with plans for North Carolina. There are approximately 18 opportunity funds including North Carolina Opportunity Zones within their investment focus. Of the 18 North Carolina Opportunity funds only 7 initiated or completed projects in the state of North Carolina. Of the 7 funds with active projects only 2 projects have been initiated in Johnston and Durham Counties. The funds have developed one project in each county. Of the funds and projects reviewed only two of them: (1) Integrated Asset Advisors and (2) The Impact Carolina Funds were North Carolina based.

The Strategic Rivermont OZ Fund (Rivermont OZ Fund, n.d.) was developed by the Strategic Group out of Atlanta, Georgia. The company has a unique investment approach as it makes strategic investments in projects that leverage tax incentives as a primary driver of
returns. The Strategic Rivermont OZ Fund is a multi-asset fund focused on various Opportunity Zone mixed-used real estate projects. It is investing in Fayetteville, North Carolina. The Stadium View project, in Fayetteville, is a 95-unit apartment development around a new city developed baseball stadium. The project aims to generate market-rate returns of 15% or more. No equitable development goals were mentioned in any material reviewed. Like Milhuas, the GTIS Qualified Opportunity Fund was opportunistically created by New York based GTIS Partners. The company is a multi-asset class developer in North and South America. The $200 million Qualified Opportunity Fund is investing in projects across The United States. The fund is currently investing $30 million on a multi-family development in FreeMore West area of Charlotte (GTIS, n.d.). The project aims to generate market-rate returns of 14% or more. No equitable development goals were mentioned in any material reviewed.

The Cary, North Carolina based Integrated Assets Fund (IAA Our Funds, n.d.) is an investment company focused on senior housing in North Carolina. The $17 million IAA OZ Fund I fund is focused on three senior living communities in Clayton, Hendersonville and Vance North Carolina. The “Clayton project is a $35M 66 Bed Assisted Living/Memory Care facility with a 3 story 80-unit Independent Living Apartment community located off Glen Laurel Road and Hwy 42 in Clayton, NC” (IAA Our Funds, n.d.). No opportunity fund in North Carolina had an equitable development focus. The other North Carolina fund, The Impact Carolina QOZ Fund, is investing in a Qualified Opportunity Zone Business focused on sustainable agriculture (Carolina Opportunity Funds, 2020).

**Section 4.4 Fund Impact**

It is estimated between $33 billion and $93 billion (CEA 2020) dollars has been raised by opportunity funds across the United States. In the past few years several organizations have
reviewed the impact of current funds. The Council of Economic Advisers focused primarily on
the programs economic impact while The Urban Institute focused on both the social and
economic impact of the program.

Section 4.3.1 Economic Impact

In August of 2020 The Council of Economic Advisers\textsuperscript{32} conducted a quantitative based
economic impact assessment of the Opportunity Zone program. The CEA found a significant
increase of new capital inflows into Qualified Opportunity Zone Funds, investments in Qualified
Opportunity Zone Businesses and home values within those zones since the program’s inception.
It also concluded the forgone Federal revenue from the program was 16\% lower than the New
Market Tax Credit program.

The CEA analyzed both the Novogradac and SEC databases to calculate the total value of
Qualified Opportunity Zone Funds. The CEA was able to analyze the value of over 669 funds.
The Council developed a formula to project the median fund value and apply that calculation
across all funds\textsuperscript{33}. The analysis resulted in a total fund value range of $33 to $93 billion. The
CEA leveraged this data to then calculate total new investments in Opportunity Zones as a
portion of the capital in these funds “may have occurred without the incentive, and it is now
occurring through a fund” (CEA, 2020, p. 18). CEA estimated 70\% of the value of Qualified
Opportunity Funds was new capital. The group also found 50\% of funds focused on real estate
and 45\% of funds invested across asset classes.

The CEA also performed analysis to better understand new investments in Qualified
Opportunity Zone Businesses. Leveraging SEC filings, the council was able to identify

\textsuperscript{32} The Council of Economic Advisers is an agency within the Executive Office of the President charged with providing economic advice to the
president.

\textsuperscript{33} The CEA fund estimate of 1500 was calculated by reviewing the count of Qualified Opportunity Funds based on a Treasury Departments
estimate of 8996 filings at the time.
Qualified Opportunity Zone Businesses that raised less than $50 million dollars\textsuperscript{34} since the inception of the program. It was found that these businesses were able to raise 29% more capital from private investors. It is difficult to ascertain if these equity investments were made into larger business entities or small local businesses. We also do not know if these investments were planned prior to the passing of the legislation.

The CEA estimates the two-year increase in home values has added roughly $11 billion in additional wealth for 47% of homeowners in designated Opportunity Zone communities (CEA 2020). The CEA believes homeowners can access equity through refinancing and deploy that capital within designated Opportunity Zone communities. The CEA references several studies that describe the impact higher home values have on residents and their children. Yet, the research did find it difficult to measure the impact of renters within these communities.

The report concludes that the Opportunity Zone program has had a substantive economic impact on distressed communities and has only cost the Federal Government $.15 on every $1 in capital gains. The council recognizes time is still required to fully understand the real economic impact to Opportunity Zone communities. They speculate in the end the Opportunity Zone program will lift 1 million people out of poverty in the United States.

\textit{Section 4.3.3 Equitable Impact}

In June of 2020 The Urban Institute conducted a qualitative assessment of equitable development within Opportunity Zones. The Urban Institute defines equitable development as:

“a form of neighborhood or community revitalization work that emphasizes outcomes both for people and place. It seeks to improve quality of life for original residents, not simply to transform a community by changing who lives there. It considers local and regional context along with disparities among residents. In this sense, equitable development could be considered the intersection or union of economic development and community development. In terms of process, it puts residents and local leaders in roles of informing and deciding on which investments should be made and how.” (Theodos et al., 2020, p. 2).

\textsuperscript{34} The CEA wanted to eliminate capital raised from large enterprises
The organization conducted over 70 interviews with project sponsors, fund managers, investors, public agencies and non-profits to analyze the impact of the Opportunity Zone program. The study highlights several concerns with the program structure and challenges to equitable development.

The Urban Institute found the Opportunity Zone program to have three inherent flaws in its design. First, the Opportunity Zone tract selection process included contiguous provisions that allow more affluent communities to be designated as Opportunity Zones. While this represents a small percentage of the overall tracts it increases the likelihood gentrification will spread from contiguous tracts to distressed communities and displace its residents. Many observers believe “developers have been focusing on the OZs that were already on the upswing, leaving more distressed areas behind” (Theodos et al., 2020, p. 2). Second, the programs “substantial improvement” provision incentivizes larger more capital-intensive real estate projects with higher return potential. The projects of this size are generally luxury multi-family or mixed-use structures in urban centers with above market rents. The program makes it cost prohibitive to investment in small businesses. Lastly, the ability for project sponsors to invest in distressed communities at will and with no involvement from local actors (e.g., municipal governments, community organizations) has resulted in projects with little to no consideration of equitable development.

The research also finds four main obstacles to equitable development within Opportunity Zones. The Urban Institute concludes equitable development is constrained because the program: (1) benefits the projects with the highest return potential. Project sponsors often have to bundle Federal and State incentives to make equitable investments attractive for investors, (2) limits the pool of investors and excludes dollars from community investment entities supporting
the local communities. The traditional community actors like CDFI are not currently engaged Opportunity Zone investments unless NMTCs are part of the project funding structure. (3) drives a greater share of investments to real estate and not local small businesses and (4) limits long term community ownership and investment with a 10-year time horizon (Theodos et al. 2020).

Equitable development project sponsors are struggling to find investors interested in their projects. While the Urban Institute finds significant obstacles to reaching equitable development goals it does highlight how the program has increased interest in communities that were previously ignored by investors. The research points to “groups with little background in the mainstream community development industry who are now using, or seeking to use, OZs for equitable development” (Theodos et al., 2020, p. 7). The researchers believe more is required to sustain this increased interest.

**Section 4.5 Fund Research Findings**

Opportunity Funds and the application of the Opportunity Zone program continue to evolve. At inception, a large portion of the projects focused heavily on Qualified Opportunity Zone Properties. Over time the projects and funds have expanded their scope to include Qualified Opportunity Zone Businesses. The research in the preceding sections helps identify central developments with the Opportunity Zone program as it exist today.

A particular subset of investor has interest in the program. High net worth individuals have been the primary driver of capital inflows for Qualified Opportunity Funds. The average household income of a Qualified Opportunity Fund investor is approximately $1,000,000 (Kennedy & Wheeler, 2021, p. 19). The investors generally have no geographical, asset class or
industry preference. They often seek market-rate returns and do not mandate social impact from the projects they invest in. Few investors focus on deploying capital locally.

A large portion of Qualified Opportunity Zone Business investments are going to startups (e.g., BitCapital) in diverse industries. A startup investment appears to work well within the Opportunity Zone program structure. The investment aligns with the program incentive window and defers what could be substantial capital gains at the end of the investment period. The investment also meets individual investor market-rate return expectations. Investors are also used to the illiquid nature of these types of investments. Lastly, few if any QOZB investments are being made into local small businesses within distressed communities. The current investors in Opportunity Funds would not find the returns from investing in existing small businesses compelling enough to assume the greater risk associated with these types of investments.

Outside of a few creative small to medium size businesses (e.g., DPI), little to no activity was found from large Fortune 1000 enterprises. Additionally, few mission-based organizations (e.g., CDFIs) are currently leveraging the Opportunity Zone program. The organizations would traditionally leverage economic incentives (e.g., tax credits) to provide loans, with below market interest rates, to small businesses. A lack of these participants and the interest from wealthy private investors is a significant obstacle for small businesses trying to leverage the Opportunity Zone program.

Developers and investors have opportunistically made Qualified Opportunity Zone Property investments (e.g., Milhuas). Often, developers are building in the more advantaged portions of Opportunity Zone tracts. Some “25 percent of New York State’s Opportunity Zones are in booming Brooklyn” (Wessel, 2021). Furthermore, many projects were already planned or

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35 Startup investors traditionally seek to exit their investments in 7-10 years
under construction when the legislation was passed\textsuperscript{36}. At times developers did not realize their property was in a designated tract.

The unbureaucratic and “free market” nature of the program is fueling creative uses (e.g., U.S. Gold) that have little or nothing to do with the intended goals of the program. Often the more creative a project is the further away it strays from equitable development (e.g., Rainbird Development Company).

One of the most interesting findings of the research was the lack of diversity amongst investors, fund managers and project sponsors. While it is not surprising not to find BIPOC investors or fund managers (considering average household income of a black family in the United States is approximately $30,000), it was surprising to find only a handful of projects led by BIPOC (e.g., Array).

While scarce, the equitable development projects reviewed uncovered a few important things for future project sponsors to consider. First, an established local mission-based community infrastructure was instrumental to bringing all the various actors required for identifying projects with significant community impact. In almost all cases where equitable development was successful the project sponsors were established community leaders or organizations with deep ties to the public, local government and private actors (e.g. SOLA). The Opportunity Zone program allowed these individuals or groups to accelerate their already established social impact vision and attract more interest from investors who would otherwise be difficult to reach. Second, the equitable development projects needed to be larger in size and scope in order to be meaningful enough for all the various actors to commit the appropriate time.

\textsuperscript{36} In November of 2019 I attended the Triangle Business Journals Opportunity Zone conference where developers highlighted the best way to alter the funding structure with under construction projects, in newly designated Opportunity Zones, to Opportunity Fund capital. If a Certificate of Occupancy (CO) had not been administered the project could recapitalize with Opportunity Funds and then seek a CO. The approach would meet the substantially improve clause of the program as without a CO the value of the project is equal to the land value.
and resources required to support the project. Not one equitable development project was
smaller than $5 Million. Third, project sponsors almost always used or sought additional local
and federal incentives (e.g., Array) to get closer to investors return expectations. One interesting
find is stacked incentives can be used across all types of projects to boast returns (e.g., USVI
Hemp). Lastly, almost all equitable development projects were mixed-used or affordable
housing and in larger urban centers across the United States.

One universal fact across all projects, investors, funds, actors and studies is that no
project measures social or economic impact. The impact of the program is currently
inconsistently measured by policy research firms (e.g., The Urban Institute), special Federal
councils (e.g., CEA) or media agencies.
Chapter 5 – North Carolina Opportunity Zones

“CityPlat is excited to present "Borden Brick" in the heart of Durham, NC. We are so excited to present this opportunity with a rich history. This mini outdoor entertainment complex will be featuring a Taqueria, Coffee Shop, Ice Cream Parlor, and many more with a beautiful outdoor space. We currently have an opportunity for Distillery, Pizzeria w/ Vino, or another eclectic Restaurant concept.” (Harshberger, 2020)

Opportunity Zone investors can target any market and asset class as demonstrated in Chapter 4. North Carolina Opportunity Zones provides investors a chance to invest in a wide array of tracts. The tracts can support diverse projects yielding market-rate and mission-oriented returns. North Carolina’s distressed communities are surrounded by strong economic centers. The state is one of the fastest growing areas in The United States. In the next sections, I review North Carolina Opportunity Zones to identify counties and Opportunity Zone tracts that could support hypothetical “thought experiments.”

Section 5.1: North Carolina Opportunity Zone

In North Carolina there are over 1,000 low-income census tracts that could have qualified for Opportunity Zone designation (North Carolina Opportunity Zones, n.d.). The Opportunity Zone legislation allowed each state to designate 25% of their low-income census tracts. In North Carolina this meant only 252 of the 1000 low-income census tracts were selected for Opportunity Zone designation. The North Carolina Opportunity Zones comprise both rural (33%) and urban centers (67%). The Opportunity Zones are some of the most distressed communities in the state. The average poverty rate in these communities is 62% higher and income rate 70% lower than an average of? all other communities across the state of North Carolina (Table 6).
Table 6

North Carolina Opportunity Zone Profile

<table>
<thead>
<tr>
<th>Criteria</th>
<th>North Carolina</th>
<th>North Carolina Opportunity Zone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minority Population</td>
<td>36%</td>
<td>51%</td>
</tr>
<tr>
<td>Poverty Rate</td>
<td>16%</td>
<td>26%</td>
</tr>
<tr>
<td>Average Median Family Income</td>
<td>$62,200</td>
<td>$43,500</td>
</tr>
<tr>
<td>Bachelor’s Degree or more</td>
<td>30%</td>
<td>17%</td>
</tr>
<tr>
<td>Adults Not Working</td>
<td>29%</td>
<td>35%</td>
</tr>
<tr>
<td>Housing Vacancy</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Rent Burden</td>
<td>49%</td>
<td>54%</td>
</tr>
</tbody>
</table>

*Note. Adapted from Economic Innovation Group Opportunity Zones map. From https://eig.org/opportunityzones. In public domain*

The North Carolina Economic Development Association believes there is over $15 billion in local capital gains that could be deployed to support the almost 1.1 million North Carolinian’s 50,000 plus establishments that do business within the designated Opportunity Zones across the state (NCEDA, n.d.). The two largest economic centers in North Carolina are the Charlotte and Triangle regions. The areas represent significant opportunity for projects seeking market-rate and mission-oriented returns. I chose to research The Triangle region because of my familiarity with area and the assortment of Opportunity Zone tracts (e.g., urban, rural, large land parcels, etc.) to choose from.

**Section 5.2: Triangle**

The Triangle, a geographic footprint comprising Raleigh, Durham, Chapel Hill and surrounding areas, was named because these communities form a rough triangle with about 20
miles on each side, with a major airport and research park in the center. It contains three Tier 1 universities, The University of North Carolina, North Carolina State University and Duke University. It is home to a growing population with both stable and poor communities that at times overlap. Over 90% of the residents of The Triangle have graduated high school and over 46% have a bachelor’s degree or higher (Raleigh-Durham-Cary NC CSA, n.d.). The median household income and median home value is approximately 10% higher than the United States at approximately $73,000 and $272,000. At the same time, the Triangle Opportunity Zone resident’s median household income is approximately $25,321. The region has a strong employment base with companies like IBM, SAS, Glaxo SmithKline, Cisco, Google and Apple. At the same time, 34% of households in the region’s Opportunity Zones live in poverty. Wake (Raleigh) and Durham Counties represent two of the top five fastest growing counties in North Carolina with populations growing by 25% and 21% respectively. The only county in the region outpacing Wake and Durham was Johnston County.

I elected to analyze all 11 Opportunity Zone tracts in Durham and Johnston County. The counties are representative of the distinctions between severely distressed (Durham) and not so distressed communities (Johnston). I reviewed each tract to identify one tract within each county for my “thought experiments.”

Section 5.3: Johnston County

Johnston County was formed in 1746 and comprises nine incorporated towns: Archer Lodge, Benson, Clayton, Four Oaks, Kenly, Micro, Pine Level, Princeton, Selma, Smithfield, Wilsons Mills (Figure 8).
Figure 8

*Johnston County Districts*


It currently has a population of approximately 215,999 (Johnston County, n.d.) and has been the fastest growing county in the entire state of North Carolina over the past 10 years (Tippett, 2021) with a rate of growth of about 27.9% (Population Overview, n.d.). This is a rate almost three times the state growth rate of 9.5%.
Section 5.3.1: Johnston County Opportunity Zones

Johnston County Opportunity Zones are a composition of 4 census tracts that can be separated into two groups of tracts: (1) the western tracts of Clayton and Wilson Mills and (2) the eastern tracts of Selma and Pine Level (Figure 9).

Figure 9
Johnston County Census Tracts

Note. From https://opportunitydb.com/location/north-carolina/johnston/

The eastern tracts are smaller and increasingly home to more vulnerable populations. The western tracts appear to be experiencing a continued surge in population and job growth with companies like Grifols, Novo Nordisk and Bayer establishing a significant presence in the region (Table 7).
Table 7

Johnston County Opportunity Zone Population Key Statistics Summary

<table>
<thead>
<tr>
<th>Tract</th>
<th>Total Population</th>
<th>Median Household Income</th>
<th>Tract vs OZ Median Household Income</th>
<th>Households in Poverty</th>
<th>Tract vs OZ Poverty Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clayton</td>
<td>9,241</td>
<td>44,943</td>
<td>-5%</td>
<td>16%</td>
<td>-42%</td>
</tr>
<tr>
<td>Wilson’s Mill</td>
<td>12,258</td>
<td>55,011</td>
<td>16%</td>
<td>9%</td>
<td>-68%</td>
</tr>
<tr>
<td>Selma</td>
<td>3,957</td>
<td>32,876</td>
<td>-31%</td>
<td>31%</td>
<td>12%</td>
</tr>
<tr>
<td>Pine Level</td>
<td>4,893</td>
<td>40,532</td>
<td>-14%</td>
<td>16%</td>
<td>-42%</td>
</tr>
</tbody>
</table>

Note. Adapted from U.S. Census Data. In public domain

The Johnston County Economic Development Office is currently leading all Opportunity Zone efforts. In all the material I reviewed, the Economic Development Office is focused on projects within the Selma Opportunity Zone tract (Tract 03.01) and targeting investors expecting market-rate returns. I was also unable to locate any other community or government actors in Johnston County supporting equitable development.

I examined the four Johnston County tracts to select a tract where I could design a project generating market-rate returns for local investors. I surmised, from my research in Chapter 4, a project generating market-rate returns would have a higher likelihood of success in Johnston County, as the area had no apparent equitable development infrastructure. I chose to focus on Qualified Opportunity Zone Properties as these types of assets are much easier to find in the open market. I evaluated each Opportunity Zone tract in Johnston County across three specific criteria: (1) Qualified Opportunity Zone Properties with total purchase price of $50,000 and $100,000 (2) 3-5 completed or planned market-rate multi-family, mixed-use or single-family
communities and (3) proximity to Downtown Raleigh (Table 8) to select a tract for my “thought experiment.”

**Table 8**

*Johnston County Opportunity Experiment Tract Selection*

<table>
<thead>
<tr>
<th>Tract</th>
<th>OZ Properties</th>
<th>$50k-$100k</th>
<th>Number of developments</th>
<th>Driving Time to Downtown Raleigh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clayton</td>
<td>8</td>
<td>2</td>
<td>10</td>
<td>23 mins</td>
</tr>
<tr>
<td>Wilson’s Mill</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>28 mins</td>
</tr>
<tr>
<td>Selma</td>
<td>5</td>
<td>0</td>
<td>1</td>
<td>35 mins</td>
</tr>
<tr>
<td>Pine Level</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>39 mins</td>
</tr>
</tbody>
</table>

*Note.* Adapted from online research across various sites.

I selected the Clayton tract (Tract 10.01) for one of the “thought experiments.” The tract has a strong base of newly constructed or planned mixed-use, multi-family and residential subdivision communities for market rate tenants. The proximity to North Carolina’s capital makes the Clayton Opportunity Zone tract attractive for smaller local investors priced out of investment opportunities in downtown Raleigh.

*Section 5.3.2: “Clayton” Tract - Opportunity Zone Tract 10.01*

The town of Clayton has historically been an important part of the triangle region (Clayton History, n.d.). In modern times, it has provided more affordable housing options for those working in Raleigh. The town comprises eight distinct districts. The Opportunity Zone primarily covers five out of the eight: (1) Central Business District, (2) Downtown (3) Covered Bridge (4) East Bridge, and (5) Advanced Manufacturing. The Clayton tract would be very appealing to investors evaluating investments based on traditional economics. It is one of the top
ten fastest-growing municipalities in North Carolina, only 15 minutes from downtown Raleigh, and continues to attract new investments in housing developments across the eight districts. Clayton has the second lowest household poverty rate amongst the eleven tracts assessed for this project at 16% and the second highest median household income at $53,849. The poverty rate in Clayton is 42% lower than the median household poverty rate and the median household income is 14% higher than the median household income in other zones.

Section 5.3: Durham County

Durham County was formed in 1881 and comprises seven communities: Bahama, Bethesda, Genlee, Lowe’s Grove, Downtown Durham, Oak Grove and Braggtown (Figure 10). The City of Durham is the only incorporated municipality within the County. It currently has a population of approximately 321,488 and is the fifth fastest growing county in the state of North Carolina over the past ten years (Tippett, 2021) with a rate of growth of about 21.4% (Population Overview, n.d.). This is a rate greater than two times the state growth rate of 9.5%.
Section 5.3.1: Durham County Opportunity Zones

The state executive team selected seven census tracts (Figure 10) in Durham County with distinct profiles and development opportunities.

The central tracts are smaller and increasingly home to more vulnerable populations. The western tracts are regions supported by major developments and Duke University (Table 9).
### Table 9
*Durham County Opportunity Zone Population Key Statistics Summary*

<table>
<thead>
<tr>
<th>Tract</th>
<th>Total Population</th>
<th>Median Household Population</th>
<th>Median Household Income</th>
<th>Tract vs OZ Median Household Income</th>
<th>Households in Poverty</th>
<th>Tract vs OZ Poverty Rate</th>
<th>Poverty Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duke</td>
<td>6,850</td>
<td>24,845</td>
<td>-47%</td>
<td>41%</td>
<td>48%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DAP &amp; Hayti</td>
<td>1,434</td>
<td>18,815</td>
<td>-60%</td>
<td>43%</td>
<td>55%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Alston West</td>
<td>3,849</td>
<td>18,292</td>
<td>-61%</td>
<td>47%</td>
<td>70%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Alston East</td>
<td>3,887</td>
<td>25,321</td>
<td>-46%</td>
<td>37%</td>
<td>34%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Alston</td>
<td>3,161</td>
<td>16,655</td>
<td>-65%</td>
<td>46%</td>
<td>66%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Drive</td>
<td>2,983</td>
<td>22,381</td>
<td>-53%</td>
<td>34%</td>
<td>23%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note.* Adapted from U.S. Census Data.

The primary government office pushing Opportunity Zone investments appears to be the City of Durham Office of Economic & Workforce Development. Their web material highlights the benefits of Opportunity Zone investments and the impact these investments can have on increasing workforce housing. The Durham Housing Authority summarized their 10-year development plan and Durham County highlighted a redevelopment plan on East Main Street.

The City of Durham is also home to some of the most effective mission-oriented institutions in the state. The Latin Community Credit Union has served the unbanked in the Durham County community for 21 years. Self-Help, a Durham based Community Development Financial Institution, has been a staple in the community for many years and is tied closely to the African American Credit Union movement in North Carolina. Trosa, a non-profit, has emerged
as one of the leading national social enterprises with four different business lines in moving, lawn care, retail and seasonal tree lots.

I examined the seven Durham County tracts to select a tract where I could design an equitable development project generating mark-rate or mission-oriented returns. A strong equitable development infrastructure increased the likelihood of finding an engaged municipal leadership, impact investors, mission-based organizations, and community partners. As with Johnston County, I focused my attention on finding Qualified Opportunity Zone Properties.

I evaluated each Opportunity Zone tract in Durham across three specific criteria: (1) Opportunities to purchase property or land between $1 to $2 million, (2) Completed or planned affordable housing projects and (3) Walkability (Table 10).

Table 10
Durham County Opportunity Experiment Tract Selection

<table>
<thead>
<tr>
<th>Tract</th>
<th>OZ Properties for Sale</th>
<th>$1M-$2M</th>
<th>Affordable Housing Projects</th>
<th>Walkability To Downtown</th>
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<tbody>
<tr>
<td>Duke</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>10 mins</td>
</tr>
<tr>
<td>DAP &amp; Hayti</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>5 mins</td>
</tr>
<tr>
<td>North Alston West</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2 mins</td>
</tr>
<tr>
<td>North Alston East</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>4 mins</td>
</tr>
<tr>
<td>South Alston</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5 mins</td>
</tr>
<tr>
<td>University Drive</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>15 mins</td>
</tr>
</tbody>
</table>

Note. Adapted from online research across various sites.
I selected the DAP and Hayti tract (Tract 23.00) for one of the “thought experiments.” The tract is surrounded by a mixture of developments that aim at integrating market-rate and below market-rate tenants. The City of Durham recently built and is planning subsidized housing. The proximity to Downtown Durham, North Carolina Central and North Carolina Highway 751 will attract the actors required to support an equitable development project. It was also the only tract with Qualified Opportunity Zone Properties within our purchase criteria.

Section 5.3.2: “DAP and Hayti” Tract (Tract 23.00)

The Durham Athletic Park (DAP) and Hayti community play an important role for the City of Durham. The DAP was relocated to its current location and, along with American Tobacco, initiated the redevelopment of the entire area 26 years ago. The Hayti community could be considered the cultural heartbeat of the City of Durham. The Hayti community is anchored by the Hayti Heritage Center on Fayetteville Street. The Center recently received a preservation grant from the African American Cultural Heritage Action Fund (https://hayti.org/).

The DAP and Hayti tract is home to 1,434 residents with a median household income of $18,815, 43% of households in poverty and 123 businesses. The zone has two Durham Housing Authority parcels, four main City-owned parcels, a substantial amount of single-family residential south of West Lakewood Avenue, and over 75% of the area is considered part of the Downtown Development Tier. The Opportunity Zone can be broken into two corridors: (1) North of NC 147 and (2) South of 147.
Chapter 6 – North Carolina Opportunity Funds and Projects Thought Experiments

“Opportunity Zones investors are for-profit institutions, family offices, and high-net-worth individuals with capital gains. Their doors have not been open to women and minority developers for years, so who is getting access to this capital? —Real estate developer” (Theodos et al. 2020)

An opportunity fund’s and project’s success are determined by two important factors: (1) a clear understanding of the utility of the Opportunity Zone tract,37 and (2) the actors required to achieve the goal of the fund and project. In order to better understand the potential in North Carolina Opportunity Zones, I created hypothetical “thought experiment” funds and projects. The Opportunity Zone experiments are designed to understand the potential impact market-rate and mission-oriented projects can have on North Carolina communities. Leveraging my research from Chapter 5, I was able to identify one tract in Durham and one in Johnston County as having what I thought was the greatest potential for investment today. The experiments take real Qualified Opportunity Zone Properties currently on the market, design a project, develop a single project fund and model investment returns. I leveraged a condensed investment construct for these experiments. The typical investment construct would be too cumbersome for a thought experiment. A few of the real projects I reviewed had in excess of 80 pages worth of analysis, financial modeling and investor presentation material. The consolidated construct of the thought experiments in the subsequent sections will be: (1) Experiment Summary and Target Investor Profile (2) Market, (3) Project, (4) Financing and (5) Returns.

Section 6.1 Clayton Opportunity Zone Thought Experiment – Hope at Stallings Project

In my fund and project research, I noticed most market-rate funds and projects sought to attract high net worth investors with substantial gains from outside the community. By contrast,

37 The utility of the Opportunity Zone tract is important as it will determine what type of returns a project will make and the investors to target with the fund.
the Hope at Stallings is a market-rate Opportunity Zone project in Clayton, North Carolina focused on small local community investors. The goal is to better understand how a market-rate project could be designed to attract small local investors. The local investors may then have more interest than general investors in making subsequent investments in smaller local Qualified Opportunity Zone Businesses and mission-oriented projects in surrounding areas. The goal is to leverage market-rate projects as an incentive to discuss equitable development within their community.

Section 6.1.1 Clayton Opportunity Zone Market

Over the course of the past decade, Johnston County and Clayton township have emerged as one of the fastest growing areas of the United States. The Clayton township opportunity tract represents an opportunity for small investors seeking to use capital gains within the Raleigh MSA. The key strengths of the Clayton Opportunity Zones are: (1) Top ten fastest growing municipalities in North Carolina, (2) Proximity to downtown Raleigh, and (3) Increasing investments in Downtown and Central Business Districts.

The town of Clayton has always been an important part of the triangle (Clayton History, n.d.). The Interstate 40 extension allowed workers to purchase more affordable homes in the 1980’s and the population growth within Clayton has continued to grow (Clayton Demographics, n.d.) in line with that of Johnston County. Its proximity to Raleigh downtown, approximately 15-minute drive, has increased interest over the past decade. It is included in the Raleigh MSA. The population is highly educated with over 92% of adults graduating high school and 34% holding a bachelor’s degree. The median household income is approximately $60,000 and is home to major employers like Caterpillar, Grifols and Novo Nordisk. The Town of Clayton can be broken into 8 distinct districts: (A) Advanced Manufacturing, (B) Business Central, (C)
Covered Bridge, (D) Downtown, (E) East Bridge, (F) Future Growth, (G) Gateway and (H) Health. (Figure 11).

Figure 12

*Clayton Districts*

![Map of Clayton Districts]


The Advanced Manufacturing area in East Clayton is the center for bio-pharmaceutical drug manufacturing. Anchored by the over $2 billion active Novo-Nordisk pharmaceutical ingredient manufacturing facility (“Clayton Cuts Ribbon”, 2019) and the $377 million Grifols plasma fractionation facility (Grifols, 2014), this area has been accompanied by significant investments in infrastructure over the course of the past ten years. Clayton Business Central district, adjacent to Downtown, and along US70 is primarily a retail and multifamily residential corridor anchored by a Walmart Super Center, the middle and elementary schools and community park. The Covered Bridge and East Bridge are emerging residential districts located in Northwest and Northeast Clayton. Downtown is the home to the township’s municipal offices and under significant redevelopment. The Future Growth district is in underdeveloped South Clayton. The Gateway is the west entry into Clayton from Downtown Raleigh. The Health
district is anchored by UNC Johnston Health. The Opportunity Zone primarily covers five out of the eight primary districts: (1) Central Business District, (2) Downtown (3) Covered Bridge and (4) East Bridge, (5) Advanced Manufacturing.

Section 6.1.2 Clayton Experiment Project - Hope at East Stallings Project

An investment in Hope at Stallings will allow investors to join the mix-used growth of the Central Business District and Downtown and single-family housing growth concentrated in the Covered Bridge and East Bridge communities. Those communities are home to some major market-rate development projects.

Hope at East Stallings is a planned $2.3 million multifamily “micro-development” within the heart of Clayton downtown and on the northern end of a designated North Carolina Opportunity Zone (Tract 410.01). The 12-unit project will consist of six duplexes on East Stallings just off North Smith Street. Each unit comprises three bedrooms, two bathrooms, a single car garage and will be approximately 1000 square feet (Figure 12).

Figure 13
Hope at East Stallings Proposed Duplex Structure

Note. From https://www.houseplans.pro/plans. In public domain

38 The property listing is on Trulia https://www.trulia.com/property/9069326042-Stallings-St-Clayton-NC-27520
Section 6.1.3 The Neighborhood of Downtown Clayton

Downtown is anchored by the Clayton Center for the Arts near the town square (see Area C in Figure 13) and the Clayton Sculpture Trail (see Area D in Figure 13). An art installation featuring eleven works of art located on or right off East Main Street. The area also has an active small business community of local fare, from food (Jones Café) to crafts (The Market at Three Little Birds). Additionally, the Town of Clayton is investing in improving the appearance of older buildings by financially supporting the Downtown Façade Improvement Grant Program (Clayton Downtown Development, n.d.). Downtown Clayton is currently going through a new wave of rezoning, redevelopment and new development. Two single-family dwellings have recently been rezoned on West Stallings Street to accommodate two new duplexes (see Area B in Figure 13). The Lofts at Wild District, Wild District Event Center and Wilders Market (see Area C in Figure 13) are multi-family and commercial development projects underway. The Lofts at Old Town Hall, a 16-unit multifamily development, is positioned right along the Clayton Sculpture Trail (see Area D in Figure 13). An entire section of Main Street between Smith Street and Main Street has been re-zoned for mix-used development (see Area E in Figure 13). The downtown is also surrounded by a burgeoning new set of communities. The Walk at East Village and Spinning Mills Lofts at East Village (see Area F in Figure 13), Camel Central Townhomes (see Area G in Figure 13) and Academy Point (see Area H in Figure 13) are just a minute’s drive from downtown. The Hope at East Stallings project (see Area A in Figure 13) is a 5-minute walk to Main Street and surrounded by all of the downtown and local development.

Figure 14
Hope at East Stallings, Clayton Downtown and surrounding development
Section 6.1.3: Clayton Experiment Project Financing

The Hope at Stallings project will be funded by both bank debt and The Clayton Hope Opportunity Zone Fund. The fund will invest 100% of capital raised into the Hope at Stallings project. Union Bank of North Carolina will provide project loan (Table 11).

Table 11

Hope at Stallings Source and Use

<table>
<thead>
<tr>
<th>Sources</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clayton Hope Fund I</td>
<td>$1,000,000</td>
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<tr>
<td>Bank Loan</td>
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<td><strong>Total Sources</strong></td>
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</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note.** From https://www.johnstoncountync.org/plugins/maps/map/clayton-sculpture-trail/5bc60971ff6b3968c5626c6e/
Section 6.1.4: Clayton Experiment Return

The opportunity fund will raise $1,000,000 from 100 local accredited and non-accredited investors\(^{39}\). The fund will take advantage of crowdfunding platform Fundrise (https://fundrise.com/) to raise the $1,000,000. The investment will only be open to investors within a 50-mile radius of downtown Clayton to increase the likelihood of raising 100% of the capital for the fund while adhering to our experiment objectives of attracting local investors. This will allow fund managers to access over 500,000 adults and only require a .02% investor digital acquisition rate. The standard digital acquisition rate in the U.S. is 2%. The fund seeks to take advantage of the opportunity fund legislation and anticipates a 11% after-tax annual return to investors over a 10-year period (Table 12). A similar investment in a traditional fund would yield approximately a 7% return (Table 13). The 11% return is 900 basis points higher than the risk-free rate, 500 basis points higher than equity risk premium and 700 basis points higher than the current cap rate in Clayton. The fund will not seek to bundle other incentives.

\(^{39}\) All investors in the fund will be Limited Partners with no controlling stack. General Partners will manage the fund.
Table 12

Hope at Stallings Opportunity Zone Returns

<table>
<thead>
<tr>
<th>Investor Returns</th>
<th>Opportunity Fund Returns with Pre-Tax Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Income (pre-tax)</td>
<td>$ 10,000</td>
</tr>
<tr>
<td>Year 5 Tax Basis</td>
<td>10.00%</td>
</tr>
<tr>
<td>Year 7 Tax Basis</td>
<td>5.00%</td>
</tr>
<tr>
<td>Capital Gain % (tax bracket)</td>
<td>23.80%</td>
</tr>
<tr>
<td>Investment Return</td>
<td>12%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Value</th>
<th>Tax Basis</th>
<th>Taxable Gain</th>
<th>Taxes Paid Upon Liquidation</th>
<th>Investment Proceeds</th>
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</thead>
<tbody>
<tr>
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<td>$ (10,000)</td>
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<td>$ 11,200</td>
<td>$ 2,666</td>
<td>$ 8,534</td>
</tr>
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<td>$ 3,344</td>
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<td>$ 26,231</td>
<td>$ 6,243</td>
<td>$ 21,488</td>
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</tbody>
</table>

Opportunity Zone Investment Return

| Year Ten Return | |
|-----------------|------------------|--------------|----------------------------|---------------------|
| Present Value   | $ (10,000)       | $ -          | $ 8,500                    | $ 2,023             |
| Future Value    | $ 29,035         | $ -          | $ 29,035                   | $ 29,035            |
| Payment         | $ -              |              |                            |                     |
| Term            | 10               |              |                            |                     |
| Annual Return (after-tax) | 11.25% |

Note. The table above is a result of an underwriting exercise where the following assumptions where made: (1) a rent growth rate of 3%, (2) Cap Rate of 4.6%, (3) Occupancy Rate of 91.5%, and (4) Operating Expense Ratio of 40%

a The model meets the substantial improvements provision of the Opportunity Zone program by investing $60,000 or more towards the development of the property.

b The modeling exercise resulted in an annual investment return of 12% over a 10 year period.
Table 13

*Hope at Stallings Traditional Returns*

<table>
<thead>
<tr>
<th>Investor Returns</th>
<th>Traditional Returns with After-Tax Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Income (pre-tax)</td>
<td>$13,123.36</td>
</tr>
<tr>
<td>Capital Gain % (tax bracket)</td>
<td>23.80%</td>
</tr>
<tr>
<td>Investable Amount (after-tax)</td>
<td>$10,000</td>
</tr>
<tr>
<td>Investment Return</td>
<td>12%</td>
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</tbody>
</table>

<table>
<thead>
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<th>Year</th>
<th>Investment Value</th>
<th>Tax Basis</th>
<th>Taxable Gain</th>
<th>Taxes Paid Upon Liquidation</th>
<th>Investment Proceeds</th>
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</thead>
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<td>$ (13,123)</td>
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<td>17,731</td>
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<td>31,058</td>
<td>10,000</td>
<td>21,058</td>
<td>5,012</td>
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</table>

**Traditional Investment Return**

<table>
<thead>
<tr>
<th>Year Ten Return</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Value</td>
<td>$ (13,123)</td>
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<tr>
<td>Future Value</td>
<td>$26,047</td>
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<tr>
<td>Payment</td>
<td>$-</td>
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<tr>
<td>Term</td>
<td>10</td>
</tr>
<tr>
<td>Annual Return (after-tax)</td>
<td>7.10%</td>
</tr>
</tbody>
</table>

*Note.* The same underwriting noted in Figure 12 was leveraged for this scenario.
Section 6.1.5: Clayton Experiment Findings

One of the most substantive findings from the fund research in Chapter 4 was the lack of participation from small local investors. The goal of the Clayton experiment was to identify a way to engage with these smaller investors and increase interest in the Opportunity Zone program locally. The Clayton experiment generated some interesting insights when trying to attract small local investors.

A lack of Qualified Opportunity Zone Properties on the market impedes a community’s ability to design projects with smaller investment minimums. It was very difficult to find Qualified Opportunity Zone Properties in Clayton that would keep the total project below $3 million as many of the Qualified Opportunity Zone Properties on the market were going for more than $2 million. The goal was to raise no more than $1 million within an Opportunity Zone fund to limit the number of investors to 100 and capital gain investments from each investor to $10,000\(^{40}\). A purchase price this high would make the total project cost exceed $8 million. The project sponsor and fund would have to raise over $5 million from small investors. A raise of this size would either involve too many investors (500) or make investment minimums unfeasible ($50,000).

A smaller project can yield good returns but requires the investor to keep their capital in for a longer period to realize these yields. The returns appear less attractive if liquidated in year five or seven. It is difficult to believe smaller investors can wait this long for good -- not exceptional -- returns when you consider the median household bank balance in the United States is approximately $5,000.

\(^{40}\) NCEDA calculated approximately $15 billion in available capital gains within North Carolina. The current census projects there to be 3.9 million households in North Carolina. It is assumed the average capital gain per household is approximately $8,000 with two adult within the household.
The Clayton Opportunity Zone tract demonstrates how more well-off contiguous communities can lead to a significant amount of market-rate development (e.g., The Walk at East Village) around but not within distressed communities. Unfortunately, for disadvantaged groups all developments within a designated tract can take advantage of the Opportunity Zone program. The market analysis highlights how Clayton has a much lower poverty rate than other zones in North Carolina. The gap is even wider when compared to the Downtown Durham Opportunity Zone tract. When paired with its proximity to Raleigh, the Clayton tract is extremely attractive to the typical high net worth Opportunity Zone investor seeking market-rate returns.

The economic impact potential of the Stalling project would appear to be temporary. The job creation would be project-based, and the twelve new households would not materially impact municipal income tax. It would be hard to steer the development of the project to a minority owned contractor as it was difficult to find properly insured minority owned contracting companies in Clayton or the surrounding area.

The experiment confirmed our small investor participation findings in Chapter 4 and proved there are constraints for small investor involvement in the Opportunity Zone program. The substantial improvement clause within the program makes investments in land much more feasible than investments in larger Qualified Opportunity Properties or Businesses. The challenge is in finding land small enough to purchase and develop. We were fortunate to find a Qualified Opportunity Property for $60,000. Which meant the project only required a substantial improvement of $60,000 to meet program requirements. A project of this size appear to be more of an exception than a norm.
Section 6.2 Durham Opportunity Zone Experiment – Enlightenment at East Pettigrew

In my fund and project research, most mission-oriented investments fell short because of below market-rate investment returns and lack of local community involvement. The Enlightenment at East Pettigrew is a mission-oriented Opportunity Zone project in Downtown Durham, North Carolina, focused on attracting impact investors, adding subsidies to boast returns and partnering with local mission-oriented organizations to ensure sustainable community impact. The goal is to better understand how mission-oriented projects need to be designed to support equitable development.

Section 6.2.1 City of Durham Opportunity Zone Market

The town of Durham has a rich and important history for the entire state of North Carolina and Piedmont region. Durham is a city with deep tobacco roots. The American Tobacco Company and its physical location has contributed to both the initial development and redevelopment of the city. The city is also historically home to a strong African American community. Downtown Durham is the headquarters to the first African American-owned insurance company in the United States, one of the first African American-owned banks and a historically strong black entrepreneurship community. In the early 20th century, Durham was known the Black Wall Street. Duke University, only a few miles for the city, has had a major influence on economic and community development. Duke owns a substantial amount of land near downtown and has made significant investments in commercial developments directly in the city. Downtown Durham comprises American Tobacco, Brightleaf and Warehouse, Central Park, City Center, and Golden Belt or Government Services (See Figure 6.2.1).
Section 6.2.2 Durham Experiment Project - Enlightenment at East Pettigrew Project

The Enlightenment at East Pettigrew project is a planned $8 million mixed-use re-development located in downtown Durham and on the northern end of a designated North Carolina Opportunity Zone (Tract 14.00). The project will be a mix of residential and commercial space. The residential rents will be targeted between 80% - 120% of area median income (“AMI”). HUD (HUD, n.d.) establishes income limits for assisted housing every fiscal year. These income limits are available by family size and are defined as “extremely low income” (30% of area median income), “very low income” (50% of area median income) and “low-income” (80% of area median income).

The commercial space will comprise 2 spaces: (1) Diverse Food Market and (2) Enlightenment Incubator. The Diverse Food Market will work with local partner TROSA (https://trosainc.org) to provide opportunities for members of our ex-convict and recovering community.

Note. From https://www.smartdurham.org/smart-durham-maps

41 The property listing is on Loopnet https://www.loopnet.com/Listing/1010-Pettigrew-St-Durham-NC/23921757/
substance abuse community to launch food businesses. The Enlightenment Incubator will host and invest in minority-founded start-ups within the Durham community and will partner with NC IDEA (https://ncidea.org/) to build a sustainable investment model.

**Figure 16**

*Enlightenment at East Pettigrew Proposed Structure*

*Note.* From

*Section 6.2.3 The Neighborhood of Downtown Durham*

The redevelopment of American Tobacco has been noted as a critical turning point in Downtown Durham’s reemergence. In 2004, Jim Goodman, Capital Broadcasting, City of Durham and Durham County collaborated to redevelop the American Tobacco complex. Leveraging Historic Tax Credits and a newly formed New Market Tax Credit the complex was transformed. The New Market Tax Credit was provided by Self-Help. Since that time, Downtown Durham has not looked back. A recent map from Downtown Durham Inc.’s website illustrates the development in Downtown Durham (Figure 17). The map highlights major
developments around the city that have been completed, are under construction or planned in the future. In close proximity to the East Pettigrew project are major residential developments and designated future projects. A market-rate development multi-family project is under way at 510 East Pettigrew. The project will add 240 apartment units to the downtown community and approximately 480 parking spaces. (Figure 16). The Bordon Brick project is a planned mini-entertainment project that will feature food and night-life establishments (see Area B in Figure 16). The builder of this project leveraged Opportunity Zone funding. The City of Durham has an affordable housing project planned at 300 and 500 Main Street Sites (see Area C in Figure 16). The Enlightenment at East Pettigrew project (see Area D in Figure 16) is a 5-minute walk to The Bordon Brick Project, Durham Police Department and Golden Belt district.
Section 6.2.3: Durham Experiment Project Financing

The Enlightenment at East Pettigrew project will be funded with a New Market Tax Credit standard and The Enlightenment Opportunity Zone Fund. The fund will invest 100% of capital raised into the Enlightenment at East Pettigrew project. Self-Help, a CDFI, will provide NMTC loan (Table 14).
### Table 14

*Enlightenment at East Pettigrew Source and Use*

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Market Tax Credit &amp; Grant</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Bank Loan</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>The Enlightenment Opportunity Zone Fund</td>
<td>$2,000,000</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$7,500,000</strong></td>
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<table>
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<th>Uses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Costs</td>
<td>$1,600,000</td>
</tr>
<tr>
<td>Build Costs</td>
<td>$5,500,000</td>
</tr>
<tr>
<td>Loan Costs</td>
<td>$88,100</td>
</tr>
<tr>
<td>Fund Costs</td>
<td>$20,000</td>
</tr>
<tr>
<td>Cash Reserves</td>
<td>$291,900</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$7,500,000</strong></td>
</tr>
</tbody>
</table>

Section 6.2.4: Durham Experiment Return

The opportunity fund will raise $2,000,000 from 20 accredited investors. The fund seeks to take advantage of the opportunity fund legislation and anticipates a 9% after-tax annual return to investors over a 10-year period (Table 15). A similar investment in a traditional fund would yield approximately a 5% return (Table 15). The 9% return is 700 basis points higher than the risk-free rate, 300 basis points higher than equity risk premium and 500 basis points higher than the current cap rate in Durham.
Table 15

Enlightenment at East Pettigrew Opportunity Zone Returns

<table>
<thead>
<tr>
<th>Investor Returns</th>
<th>Opportunity Fund Returns with Pre-Tax Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Income (pre-tax)</td>
<td>$100,000</td>
</tr>
<tr>
<td>Year 5 Tax Basis</td>
<td>10.00%</td>
</tr>
<tr>
<td>Year 7 Tax Basis</td>
<td>5.00%</td>
</tr>
<tr>
<td>Capital Gain % (tax bracket)</td>
<td>23.80%</td>
</tr>
<tr>
<td>Investment Return</td>
<td>10%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Value Appreciation</th>
<th>Tax Basis</th>
<th>Taxable Gain</th>
<th>Taxes Paid Upon Liquidation</th>
<th>Investment Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$ (100,000)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$83,820</td>
</tr>
<tr>
<td>1</td>
<td>$110,000</td>
<td>$-</td>
<td>$110,000</td>
<td>$26,180</td>
<td>$83,820</td>
</tr>
<tr>
<td>2</td>
<td>$121,000</td>
<td>$-</td>
<td>$121,000</td>
<td>$28,798</td>
<td>$92,202</td>
</tr>
<tr>
<td>3</td>
<td>$133,100</td>
<td>$-</td>
<td>$133,100</td>
<td>$31,678</td>
<td>$101,422</td>
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<tr>
<td>4</td>
<td>$146,410</td>
<td>$-</td>
<td>$146,410</td>
<td>$34,846</td>
<td>$111,564</td>
</tr>
<tr>
<td>5</td>
<td>$161,051</td>
<td>$10,000</td>
<td>$151,051</td>
<td>$35,950</td>
<td>$125,101</td>
</tr>
<tr>
<td>6</td>
<td>$177,156</td>
<td>$10,000</td>
<td>$167,156</td>
<td>$39,783</td>
<td>$137,373</td>
</tr>
<tr>
<td>7</td>
<td>$194,872</td>
<td>$15,000</td>
<td>$179,872</td>
<td>$42,809</td>
<td>$152,062</td>
</tr>
<tr>
<td>8</td>
<td>$214,359</td>
<td>$15,000</td>
<td>$199,359</td>
<td>$47,447</td>
<td>$166,911</td>
</tr>
<tr>
<td>9</td>
<td>$235,795</td>
<td>$15,000</td>
<td>$220,795</td>
<td>$52,549</td>
<td>$183,246</td>
</tr>
<tr>
<td>10</td>
<td>$259,374</td>
<td>$15,000</td>
<td>$254,374</td>
<td>$58,608</td>
<td>$239,144</td>
</tr>
</tbody>
</table>

Opportunity Zone Investment Return

<table>
<thead>
<tr>
<th>Year Ten Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Value</td>
</tr>
<tr>
<td>Future Value</td>
</tr>
<tr>
<td>Payment</td>
</tr>
<tr>
<td>Term</td>
</tr>
<tr>
<td>Annual Return (after-tax)</td>
</tr>
</tbody>
</table>

Note. The table above is a result of an underwriting exercise where the following assumptions where made: (1) a rent growth rate of 1%, (2) Cap Rate of 5%, (3) Occupancy Rate of 85%, and (4) Operating Expense Ratio of 50%

a The model meets the substantial improvements provision of the Opportunity Zone program by investing $1,600,000 or more towards the development of the property.

b The modeling exercise resulted in an annual investment return of 10% over a 10 year period with a refinancing charge of 2% at year 7 to accommodate NMTC terms.
### Table 16

**Enlightenment at East Pettigrew Traditional Returns**

<table>
<thead>
<tr>
<th>Investor Returns</th>
<th>Traditional Returns with After-Tax Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Income (pre-tax)</td>
<td>$131,233.60</td>
</tr>
<tr>
<td>Capital Gain % (tax bracket)</td>
<td>23.80%</td>
</tr>
<tr>
<td>Investable Amount (after-tax)</td>
<td>$100,000</td>
</tr>
<tr>
<td>Investment Return</td>
<td>10%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Value</th>
<th>Tax Basis</th>
<th>Taxable Gain</th>
<th>Taxes Paid Upon Liquidation</th>
<th>Investment Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(131,234)</td>
<td>$100,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>110,000</td>
<td>$100,000</td>
<td>$10,000</td>
<td>$2,380</td>
<td>$107,620</td>
</tr>
<tr>
<td>2</td>
<td>121,000</td>
<td>$100,000</td>
<td>$21,000</td>
<td>$4,998</td>
<td>$116,002</td>
</tr>
<tr>
<td>3</td>
<td>133,100</td>
<td>$100,000</td>
<td>$33,100</td>
<td>$7,878</td>
<td>$125,222</td>
</tr>
<tr>
<td>4</td>
<td>146,410</td>
<td>$100,000</td>
<td>$46,410</td>
<td>$11,046</td>
<td>$135,364</td>
</tr>
<tr>
<td>5</td>
<td>161,051</td>
<td>$100,000</td>
<td>$61,051</td>
<td>$14,530</td>
<td>$146,521</td>
</tr>
<tr>
<td>6</td>
<td>177,156</td>
<td>$100,000</td>
<td>$77,156</td>
<td>$18,363</td>
<td>$158,793</td>
</tr>
<tr>
<td>7</td>
<td>194,872</td>
<td>$100,000</td>
<td>$94,872</td>
<td>$22,579</td>
<td>$172,292</td>
</tr>
<tr>
<td>8</td>
<td>214,359</td>
<td>$100,000</td>
<td>$114,359</td>
<td>$27,217</td>
<td>$187,141</td>
</tr>
<tr>
<td>9</td>
<td>235,795</td>
<td>$100,000</td>
<td>$135,795</td>
<td>$32,319</td>
<td>$203,476</td>
</tr>
<tr>
<td>10</td>
<td>259,374</td>
<td>$100,000</td>
<td>$159,374</td>
<td>$37,931</td>
<td>$221,443</td>
</tr>
</tbody>
</table>

**Traditional Investment Return**

<table>
<thead>
<tr>
<th>Year Ten Return</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Value</td>
<td>$ (131,234)</td>
</tr>
<tr>
<td>Future Value</td>
<td>$221,443</td>
</tr>
<tr>
<td>Payment</td>
<td>-</td>
</tr>
<tr>
<td>Term</td>
<td>10</td>
</tr>
<tr>
<td>Annual Return (after-tax)</td>
<td>5.37%</td>
</tr>
</tbody>
</table>

*Note.* The same underwriting noted in Figure 15 was leveraged for this scenario.
Section 6.2.5: Durham Experiment Findings

Two of the most essential enablers of equitable development from the fund research in Chapter 4 were: (1) a strong equitable development infrastructure and (2) ability to stack multiple incentives. The goal of the Durham experiment was to design an equitable development project that could attract investors seeking market-rate returns and have the greatest likelihood of long-term social impact. The Durham experiment confirmed many of the equitable development findings in Chapter 4.

The use of both the New Market Tax Credits and Opportunity Zone program incentives allowed the project sponsor to reach beyond the traditional impact investor community with near market-rate project returns of 9%. The near market-rate returns could potentially attract private investors looking for strong capital appreciation. It was decided to leverage the New Market Tax Credit in conjunction with Opportunity Zone program because the incentives aligned well. The New Market Tax Credit 7-years credit and Opportunity Zone program ten-year tax shelter worked because the fund could refinance the NMTC debt without liquidating prior to year ten -- thus maintaining the Opportunity Zone program tax shelter intact. The property could not leverage the Historic Tax Credit or other subsidies. The LITHC was eliminated, as it is managed through a stricter, more costly process requiring significant preplanning that did not appear feasible for this project.

The partnership with a CDE helps keep the focus on equitable development and forces greater adherence to measuring social impact. A CDE must abide by strict rules to qualify and maintain eligibility for the NMTC subsidy. The CDE itself must have a primary mission of serving low-income communities, include resident representation and be certified by the CDFI

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42 The Urban Institute found private market investors required market-rate (12-16%) or near market-rate returns (8-12%) (Theodos, 2020)
Fund. The CDFI fund is the government entity that distributes the NMTC credit. Self-Help is a CDFI with a history of funding projects like East Pettigrew. Self-Help has been distributing NMTC’s for over 20 years. It was one of the primary partners for the American Tobacco redevelopment.

The Durham communities richly resourced equitable development infrastructure made it easy to design an equitable development project. A social enterprise like TROSA is an invaluable partner to any project sponsor seeking to create community programs that last. Its 27-year history of building comprehensive social enterprise programs within the Durham community provides the foundation for East Pettigrew to succeed. An impact investor like NC Idea provides the basis for advancing entrepreneurship and access to the capital required to grow beyond the initial concept phase.

The experiment confirmed our equitable development findings in Chapter 4. Overall, Durham and cities like it would present great opportunities to leverage the Opportunity Zone program for equitable development. It proved a mission-oriented project can attract private investors and develop a sustainable social impact plan. The project could allow affordable housing tenants to live beside market-rate tenants, support job growth and provide incentives to reinvest in the communities over the long-term.
Conclusion

The United States has a rich history of antipoverty transfer and economic development programs. Some of them, such as urban renewal and public housing, have been place-based and some have been based on use of the tax code, either by tax deductions or tax credits. The Opportunity Zone program created by the federal Tax Act of 2017 is a place-based, tax-code program that allows capital to flow directly from the investor to the community with little to no government intermediation. President Trump at the time of its passing stated the goal of the provision was to “draw investment into neglected and underserved communities of America so that all Americans regardless of zip code have access to the American dream.” (Tankersley, 2018). Outside observers stated the “architects of Opportunity Zones believed that previous attempts to use the tax code to push money to capital-starved neighborhoods flopped because they had too many rules and required investors to navigate maddeningly complex bureaucratic mazes” (Wessel, 2021).

8,766 Opportunity Zones have been designated nationally. The program has had considerable interest and approximately $93 billions in private capital has been raised by Qualified Opportunity Funds. My research into 20%-24%\(^\text{43}\) of the existing funds and projects highlights how the bulk of these funds often go to Opportunity Zone projects with little to no equitable development goals. The USVI Hemp Farm, U.S. Gold and Tiger Ventures Funds highlight how investments are going to creative Opportunity Zone projects supporting traditional business activity. Overall, the programs social impact appears, at least thus far, to fall short of expectations. According to Theodos (2020:13):

“Opportunity Zones ultimately fall short because “the difference between OZs and these [historic] programs are that many OZ projects cannot be easily characterized as mission-oriented or in line with equitable development. The lack of community engagement is a more significant

\(^{43}\) CEA projected approximately 1,500 and Novogradac projected 1,243
issue as there are not intermediaries to guide or require OZ projects to align with community needs”

My research, at the National level and in North Carolina, into Opportunity Zone projects and funds’ highlights the need for: (1) state and local governments to do more to attract market-rate investors to equitable development projects and small Qualified Opportunity Zone Businesses by developing policies to support a projects ability to generate better returns and (2) project sponsors to develop a clear plan, establish local partnerships with mission-oriented organizations, generate interest in the community and educate municipalities on the potential of this program. Additionally, the projects sponsors must be versed in other federal incentives that can be bundled with the Opportunity Zone Program. This bundling will help build a compelling case for Opportunity Zone investors to commit more dollars to an equitable development project.

To date, there is little evidence the Opportunity Zone program has had a substantive impact on distressed communities in Durham (7 zones) and Johnston County (4 zones). There are currently no planned or completed equitable development projects. All 18 projects across all the eleven Opportunity Zone tracts in Durham and Johnston County seek market-rate returns and have no social impact goals. In the future, equitable development is possible in some of these tracts under the OZ program but will require more from all the various actors to make these projects a success.

The State of North Carolina fails our distressed communities in both Johnston and Durham Counties by not actively developing policies that will increase the return potential of mission-oriented projects. The state of North Carolina should work to pass legislation that would allow project sponsors to meet market-rate returns with equitable development projects. The legislation will help increase the pool of potential capital available to and likelihood of long-term impact in these counties distressed communities. In 2019, Alabama passed the Alabama
Incentives Modernization Act (“A Huge Win”, 2019) to increase investor interest in distressed communities within the state. The Modernization Act allows investors to receive the same Opportunity Zone benefits at the state level, provides access to capital from the state and tax credits to support underperforming projects.

The State of North Carolina should also work to pass legislation where state funds can be directed to small Qualified Opportunity Zone Businesses in Durham and Johnston County. In 2020, Alabama proposed developing a state fund to support struggling small businesses. The fund will leverage $25 million American Rescue Act 2020 dollars as seed capital. The fund will then invest those dollars in “Growth” funds seeking to support small businesses within distressed communities. The “Growth” funds will be required to allocate capital to small businesses within Opportunity Zone tracts, minority owned businesses and match each dollar committed by the State of Alabama (Moseley, 2021).

Durham and Johnston County leadership should develop an Opportunity Zone prospectus and designate an Opportunity Zone coordinator. A prospectus is important in attracting the right investors and lining up all the essential actors to make equitable development successful. The prospectus clearly defines the goals within the community, highlights mission-oriented resources, identifies communities in greatest need and suggest the types of projects that will have greatest social impact. Today, the Chambers of Commerce are leading Opportunity Zone efforts. Unfortunately, chamber leaders have done little to attract equitable development projects. Durham and Johnston County should also hire an Opportunity Zone coordinator and establish a community led Opportunity Zone Council. The coordinator and the Council can lead prospectus development, identify specific projects within the zone that could have social impact and collaborate with project sponsors throughout the development process. Today, no Durham or
Johnston County representatives engage with Opportunity Zone developments and project sponsors have little to no engagement with local community organizations or leaders.

Durham and Johnston County should also develop a locally based Opportunity Zone fund to specifically attract local investments with smaller capital gains to Qualified Opportunity Properties and Businesses. The local government can administer the fund and seek investment from individual citizens interested in supporting the local community. The Counties should also find ways increase the incentives for local investors investing in the community.

The responsibility does not fall solely on state and local officials. The Durham and Johnston communities will have to work to make the Opportunity Zone program more impactful. Municipal, mission-based and project-based actors will have to collaborate around a unified vision of inclusive growth and social impact. Developing a digital and physical resource center for these actors would reduce the obstacles many encounter and provide a structure for equitable development.

The next challenge for the Opportunity Zone program, both nationally and in North Carolina, will be to develop a system of sustained measurement and a commitment to leveraging the Opportunity Zone program for equitable development. In 2019 Senator Booker, one of the legislative sponsors of the bill, stated:

"Given the breadth of the Opportunity Zone incentive, the lack of reporting requirements under current law, as well as the high levels of reported interest from taxpayers, we believe it is critical that the Government Accountability Office assist Congress in evaluating the incentive and monitoring its implementation and outcomes," (Soergel, 2019)

As of today, there is still no standard approach to impact analysis and little agreement on measurement variables. Future research could build upon this research by identifying the best approach to measuring the impact of the Opportunity Zone programs across the nation.
## Appendix A: Opportunity Zone Actor Grid

<table>
<thead>
<tr>
<th>Community Development Corporations (CDCs)</th>
<th>Community Organizations (COs)</th>
<th>Community Development Financial Institutions (CDFIs)</th>
<th>Development Finance Agencies (DFAs)</th>
</tr>
</thead>
<tbody>
<tr>
<td><a href="https://community-wealth.org/">https://community-wealth.org/</a></td>
<td>Formal and informal entities lead by local residents interested in providing critical services to the community (Community Action Agencies)</td>
<td>Financial institutions (e.g. bank, credit union, LISC) that supports community development</td>
<td>Public or semi-public entity that provides or supports economic and community development through financing programs</td>
</tr>
<tr>
<td>501(c)(3) non-profit organization that serves the needs of low-income and underserved populations (e.g. affordable housing, etc.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Incentive:</strong> convincing thesis for allocating resources (e.g. capital, manpower, etc.) to OZ development</td>
<td>A strong incentive to understand the ways in which Opportunity Zone dollars can be leveraged for future community development activities (e.g. affordable housing, etc.) as over 72% of investments is allocated to home construction or rehabilitation.</td>
<td>A strong incentive, at the CO macro level, to obtain Opportunity Zone investment dollars to support local community programs and initiatives. Incentive will vary depending on goals and formality of the organization.</td>
<td>Agencies currently already have incentives in place to support economic and community development with development finance resources (e.g. tax credits, bonds, etc.).</td>
</tr>
<tr>
<td><strong>Impact:</strong> level of direct and indirect impact (e.g. network effect, etc.) on community with OZ funding</td>
<td>The direct impact on local communities could potentially be significant and sustainable, over a 10 or 20 year period, with the right program investment as members of this type of corporation generally have significant community representation on the board and within the organization.</td>
<td>Similar to CDCs, COs could have a significant and sustainable impact on local communities as they have a vested interest in the community. COs also understand what is required by the community, both tangible and intangible, to drive development. COs could have an advantage over CDCs as they will have little to no funding constraints to foundations, local and federal funding.</td>
<td>Moderate to low impact as these DFAs are highly dependent on local community actors to appropriately deploy the capital and implement the programs within the community. DFAs have a arms length relationship with the community that could prove difficult for sustainable impact. Yet, they could provide compelling additional incentives to attract investors to local communities with additional tax rebates, etc.</td>
</tr>
<tr>
<td><strong>Challenges:</strong> type of challenges actor will face in leveraging OZ</td>
<td>While the CDCs appear to be well positioned to take advantage of Opportunity Zone dollars, their greatest challenge will be generating the returns required to attract those investment funds. CDCs are generally used to government (e.g. federal, state, and city) and foundation funding to support their efforts with little to no demand for positive returns on investment.</td>
<td>CO fragmentation and structures (informal and formal) could present challenges in attracting Opportunity Zone investments within a community. Generally, private investment funds try to reduce risk and maximize returns. A reality of having to potentially manage a varying amount of COs in order to make an investment is risky and could dissuade OZ investors.</td>
<td>The most significant challenge is working through both the federal and state bureaucracies to expeditiously leverage or develop incentives within the currently divided and heavily partisan political environment.</td>
</tr>
<tr>
<td>Johnston: examples of actors in Johnston</td>
<td>Centre For Homeownership &amp; Economic Development (CHOEDC): <a href="https://homeownershipcentre.org/">https://homeownershipcentre.org/</a></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Latino Community Credit Union: <a href="http://www.latinocu.org">www.latinocu.org</a></td>
<td>North Carolina Agriculture Finance Authority: <a href="http://www.ncag.gov/">http://www.ncag.gov/</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Self-Help Venture Funds: <a href="http://www.self-help.org">www.self-help.org</a></td>
<td>North Carolina Department of Commerce: Building Re-Use Grant, Community Development Block Grant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Carolina Small Business Development Fund: <a href="https://carolinasmallbusiness.org/">https://carolinasmallbusiness.org/</a></td>
<td></td>
</tr>
<tr>
<td>State &amp; Local Governments</td>
<td>Philanthropic and community foundations</td>
<td>Private/ Public Companies, Developers and Investors</td>
<td>Leaders of Anchor Institutions</td>
</tr>
<tr>
<td>---------------------------</td>
<td>----------------------------------------</td>
<td>--------------------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>State, county and city governments regulatory frameworks for community development</td>
<td>Grant funding organizations that support local communities</td>
<td>Individuals or corporate entities investing and building within local communities with private dollars</td>
<td>Hospitals, universities, faith-based organizations and other institutions within or adjacent to Opportunity Zones</td>
</tr>
</tbody>
</table>

**Incentive:** convincing thesis for allocating resources (e.g. capital, manpower, etc.) to OZ development

State and local government officials have moderate to high interest in developing incentives for investments within the most distressed communities. The incentives vary greatly upon the economic and social philosophy of the current leaders within these institutions. Yet, many leaders heavily favor private investments that could increase job prospects for their constituencies.

Incentives are moderate to low as these foundations often have diverse funding missions that span across various elements of community and economic development.

Moderate to high incentives to develop, locate business, purchase entities within a designated Opportunity Zone.

Low to Moderate incentives to support local development within Opportunity Zones.

**Impact:** level of direct and indirect impact (e.g. network effect, etc.) on community with OZ funding

The level of impact will vary and sustainable impact is generally eschewed towards city municipalities that have to intimately understand the local populations and how dollars can impact the most underserved.

The impact could be significant if local organizations are able to make the case for foundation funding required to support long term Opportunity Fund investments.

The impact these actors have is low to moderate as the current program has no rules in place to require local community development or measure community progress.

The impact these actors have is moderate to high as they provide significant opportunity for investments into opportunity zones to be sustainable. These actors can co-invest, create a fund or provide the necessary elements to support development (e.g. workforce, etc.).

**Challenges:** type of challenges actor will face in leveraging OZ

The most significant challenge is working through both the state and local bureaucracies to expeditiously develop incentives within the currently divided and heavily partisan political environment.

Finding alignment with the right foundations, government agencies and private investors to gain access to foundation and Opportunity Zone funding.

The primary challenge is legislative timing of OZ tax incentives and availability to sizable capital gains.

The primary challenge with these actors are the varying degree to their understanding of Opportunity Zones and their role within this specific regulation.

**Durham:** examples of actors in Durham

- Durham County Economic Development: [https://www.durhambusiness360.com/](https://www.durhambusiness360.com/)
- Progress Energy Foundation
- The Triangle Community Foundation
- Carolina Opportunity Funds: [https://www.carolinaopportunityfunds.com/](https://www.carolinaopportunityfunds.com/)
- Duke University Hospital
- Quintiles, Cree
- Newhope, Elevation, World Overcomers Churches

**Johnston:** examples of actors in Johnston

- Johnston County Economic Development: [https://www.growwithjaco.com/](https://www.growwithjaco.com/)
- Golden Leaf Foundation
- Opportunity North Carolina: [https://www.carolinaopportunityfunds.com/](https://www.carolinaopportunityfunds.com/)
- WakeMed, UNC Hospital
- Grifols, Novo-Nordisk
- C3 Church
## Appendix B: Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunity Zone Tract (OZ)</strong></td>
<td>One of the 8,766 communities within The United States, Puerto Rico and U.S. Virgin Islands where investors can take advantage of the Opportunity Zone program incentives</td>
</tr>
<tr>
<td><strong>Qualified Opportunity Zone Fund (Opportunity Zone Fund)</strong></td>
<td>A single or multi-investor legal entity permitted to invest in Opportunity Zone projects</td>
</tr>
<tr>
<td><strong>Qualified Opportunity Zone Property (QOZP)</strong></td>
<td>Residential or Commercial property (e.g., land, apartments, etc.)</td>
</tr>
<tr>
<td><strong>Qualified Opportunity Zone Business (QOZB)</strong></td>
<td>Business (industry agnostic) domiciled within an Opportunity Zone Tract</td>
</tr>
<tr>
<td><strong>Equitable Development</strong></td>
<td>Development who has a primary goal of spurring economic and community impact</td>
</tr>
<tr>
<td><strong>Economic Impact</strong></td>
<td>A primary goal of increasing capital into an area to spur job creation</td>
</tr>
<tr>
<td><strong>Social Impact</strong></td>
<td>A primary goal of increasing the living standard (e.g., health, education, etc.) of the community</td>
</tr>
<tr>
<td><strong>Impact Investor</strong></td>
<td>An investor seeking to impact the environment, community or other entity while maintaining a return on their investment.</td>
</tr>
<tr>
<td><strong>Market-Rate Return</strong></td>
<td>A market-rate return is one focused on achieving 12-16% returns</td>
</tr>
<tr>
<td><strong>Mission-Oriented Return</strong></td>
<td>A mission-oriented return is one focused on achieving 3-7% returns</td>
</tr>
</tbody>
</table>
References


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