



# ARE OPPORTUNITY ZONES A FIT FOR THE REDWOOD REGION?

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## What Are Opportunity Zones?

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- ▶ Opportunity Zones are an economic development tool that allows people to invest in distressed areas in the United States.
- ▶ Their purpose is to spur economic growth and job creation in low-income communities while providing tax benefits to investors.
- ▶ Opportunity Zones were created under the Tax Cuts and Jobs Act of 2017 (Public Law No. 115-97). Thousands of low-income communities in all 50 states, the District of Columbia and five U.S. territories are designated as Qualified Opportunity Zones.
- ▶ Taxpayers can invest in these zones through Qualified Opportunity Funds.

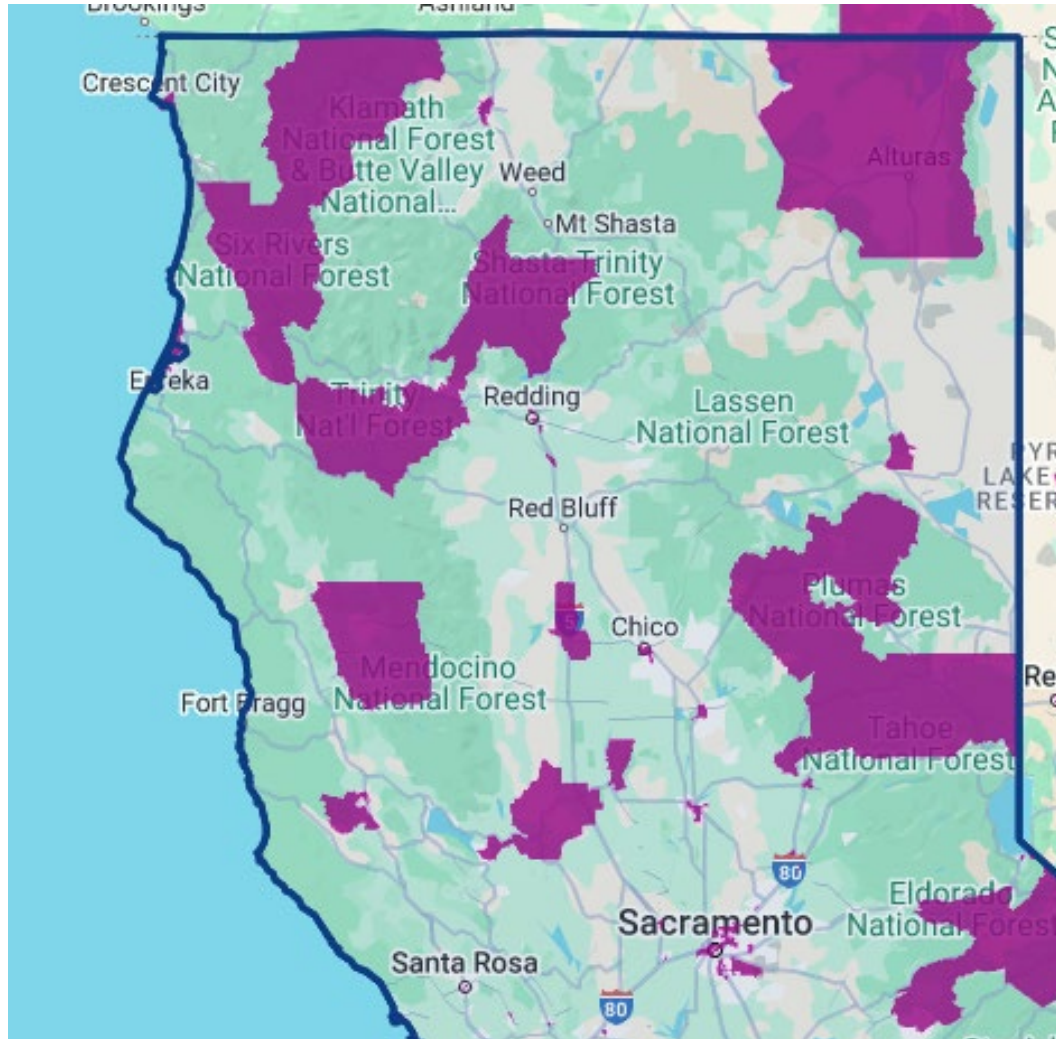
Source: <https://www.irs.gov/credits-deductions/businesses/opportunity-zones>

## More Background on Opportunity Zones

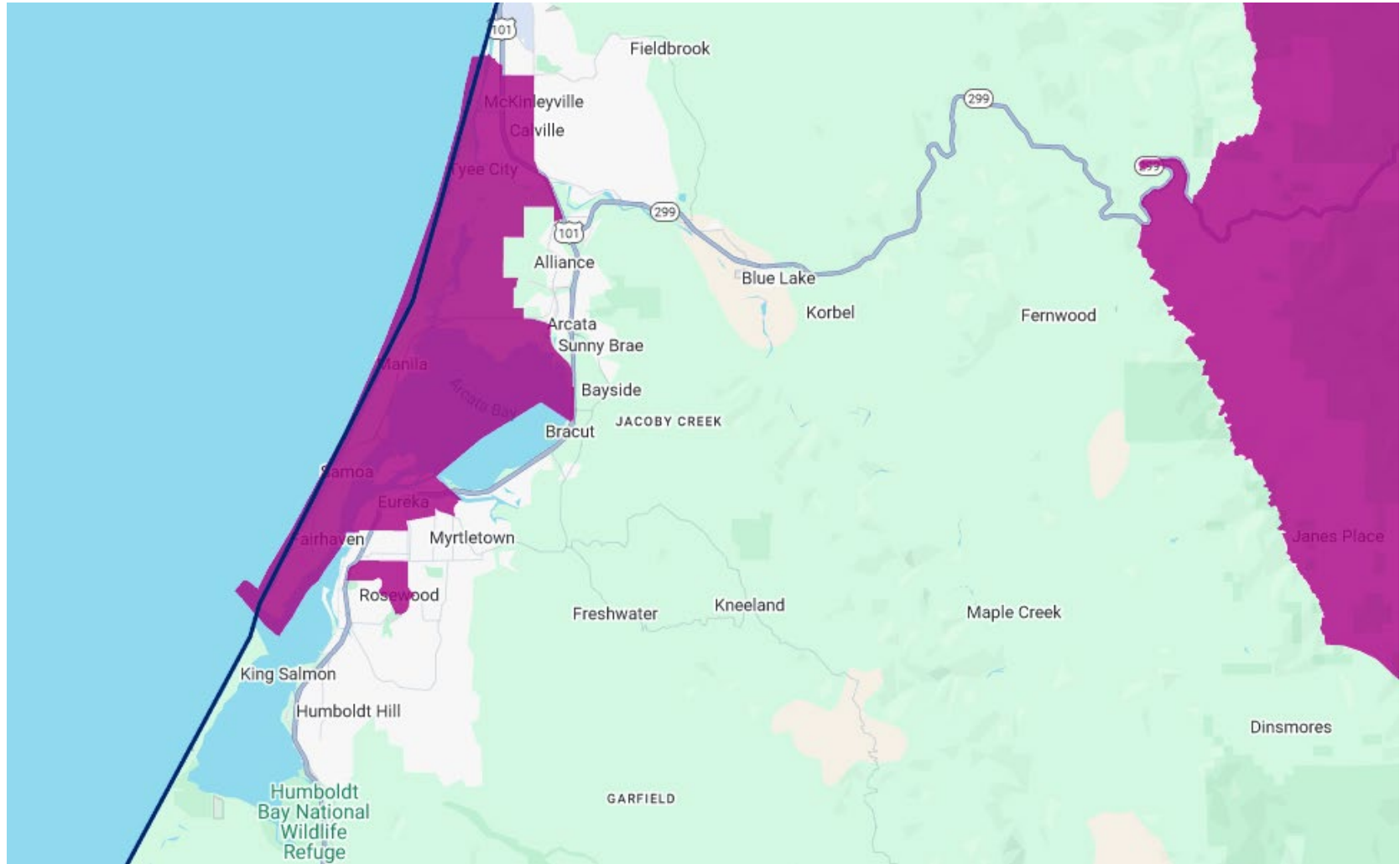
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- ▶ Census tracts designated by Federal disadvantaged community standards for a special Federal tax subsidy for new investments in real estate and businesses
  - ▶ State governors must also agree with Opportunity Zone Census Tract designation
  - ▶ The Opportunity Zone law has been in effect since 2018
- ▶ 12% of all census tracts in the United States are designated Opportunity Zones
- ▶ There are Opportunity Zones in Del Norte, Humboldt, Lake, Mendocino and Trinity Counties

# Opportunity Zones in the Redwood Region



# Opportunity Zones in the Humboldt Bay Region



## What is the Federal Subsidy?

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- ▶ The core of the subsidy is a partial or full elimination of the investor's Federal capital gains tax liability upon sale of their interest in the real estate or business
  - ▶ There is no corresponding capital gains tax write-off for California State income tax
- ▶ If an investor stays in for 10 years, the full 25% Federal capital gains tax liability is written off
  - ▶ Shorter investor "stays" in an investment result in only partial write-offs of the Federal capital gains tax liability, but these partial write downs expire in 2026
- ▶ The incoming Trump administration is expected to extend the deadline on partial write downs and try to expand the scope of the law

## Where is the money going?

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- ▶ According to the Tax Policy Center:
  - ▶ At least 2/3rds of investment money is flowing into real estate, as opposed to businesses
  - ▶ As much as 3/4ths of the real estate money is going into market rate multi-family, the rest into commercial and industrial real estate
  - ▶ 95% of all Opportunity Zone investments are made urban zones
  - ▶ 1% of the Opportunity Zones received 42% of the investments

## Who are the Opportunity Zones investors?

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- ▶ While individuals can invest directly in an Opportunity Zone investment, the vast majority of the investment money flows through what are de facto Opportunity Zone investment partnerships
  - ▶ The tax benefits to the partnership are flowed through to the individual investors
  - ▶ These partnerships have their own staff, and either partner with land developers or have their own land development staff
- ▶ These partnerships are typically focused on particular types of real estate developments, and on specific regions



## How can we capture this subsidy?

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- ▶ What can a potential 25% capital gains tax write-off do for Redwood Region Rise?
  - ▶ Deliver new real estate investments that are a “happy medium” between what the public sector/NGOs want and what Opportunity Zone investors want
  - ▶ Key question: is market rate multi-family a suitable compromise?
  - ▶ Can affordable housing be supported in the Redwood Region through Opportunity Zone investments?
  - ▶ Are there commercial or industrial real estate development opportunities of potential interest to Opportunity Zone investors?

## How can we attract Opportunity Zone investors?

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- ▶ Given the Redwood Region's rural location, working with Opportunity Zone investors on a "case-by-case" basis appears unlikely
- ▶ The Redwood Region would need to find and then partner with an Opportunity Zone partnership that finds a particular type of real estate investment in the Redwood Region attractive
- ▶ What does the Redwood Region have to offer Opportunity Zone investors?
  - ▶ Relatively low-cost land
  - ▶ Relatively more reliable long-term water supply
  - ▶ And the most controversial: willingness to grant entitlements for real estate developments that meet certain conditions?

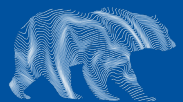
## Next Steps

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- ▶ Should the Redwood Region survey potential Opportunity Zone investor groups for a potential partnership?
- ▶ Does the 2025 likely extension & amendment of the Opportunity Zone law create more potential for Opportunity Zone investments in the Redwood Region?
- ▶ If so, should the public entities/NGOs of the Redwood Region collaborate to influence new potential Federal legislation for Opportunity Zones?
  - ▶ Establish special benefits for rural areas?
  - ▶ Collaborate with other rural areas in California or nationally to direct the benefits to rural areas?

# Opportunity Zone Resources

- [Opportunity Zones | GO-Biz Website](#)
- [Opportunity Zones | IRS Website](#)
- [Map of California Opportunity Zones](#) (the areas shaded in purple are OZ areas)
- [List of OZ Census Tracts](#)
- [List of California Opportunity Zones & OZ Funds - OpportunityZones.com\\*](#)
- [Opportunity Funds List | Novogradac\\*](#)
- [OZs Explained \(2024\) The Beginner's Guide to OZs \(opportunitydb.com\)\\*](#)



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# Thank You!



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