

OPPORTUNITY ZONES: A LOOK AT POTENTIALLY WINNING MODELS

ECONOMIC DEVELOPMENT: STRATEGIES TO ATTRACT CAPITAL

Opportunity Zones are fast becoming a real estate development buzzword, as powerful tax incentives unleashed by the 2017 Tax Cuts and Jobs Act sparks a proliferation of private capital investment into economically stressed census tracts (see our May 2019 white paper: “Opportunity Zones: An Impetus for Municipal Credit Enhancement”). According to Wealth Management.com, a recent study undertaken by Preqin indicated that nearly \$1 billion has already been invested in Qualified Opportunity Zone Funds.

At Appleton, we do not offer Qualified Opportunity Zone Funds, rather our Municipal Opportunity Zone Credit separate account strategy seeks to identify select bond issuers and issues we feel are best positioned to benefit from the credit-catalyst potential of Opportunity Zone capital.



Where are these dollars going? The race to deploy investor assets across 8,700 IRS-approved Opportunity Zone census tracts is just beginning and municipalities are in competition to entice capital investment. Due diligence demands amid a staggering number of potential projects, and regulatory ambiguity brought on by limited Federal guidelines have created challenges for investors. In response, some municipalities are taking a proactive approach by offering additional tax incentives, complementary state programs, and localized development expertise.

Supportive municipal infrastructure and a positive economic development climate can attract and nurture private capital and may help determine Opportunity Zone economic development winners. So, how are municipalities appealing to Opportunity Zone investment funds? In this brief we explore a few of the more promising models.

Proactive Cities May Be More Successful in Attracting Opportunity Zone Capital

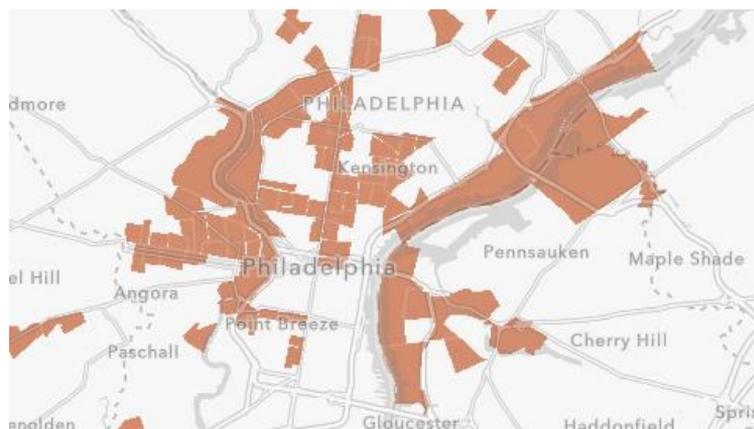
City	Opportunity Zones	Total Census Tracts	Opportunity Zone Concentration
Philadelphia, PA	82	381	21.5%
District of Columbia	25	179	14.0%
Newark, NJ	13	87	14.9%
Cleveland, OH	48	176	27.3%
Fresno, CA	36	126	28.6%

Source: U.S. Treasury, U.S. Census Bureau

PHILADELPHIA: INFRASTRUCTURE MATTERS

Opportunity Zone Funds face a bewildering array of choices and absent local real estate expertise, deciding where to invest can be difficult. In this environment, cities such as Philadelphia are seeking to differentiate themselves by leveraging long established economic development infrastructure.

PIDC is a non-profit chartered sixty years ago by the City and the local Chamber of Commerce. PIDC’s local development expertise is available to Opportunity Zone Funds considering projects in Philadelphia. PIDC offers fund managers portfolios of potential investments, extensive technical expertise, municipal policy guidance and other resources designed to help Philadelphia draw capital into its 82 Opportunity Zone census tracts. Philadelphia may be a prime beneficiary of Opportunity Zone tax legislation, in part due to its strong anchor industries, high concentration of designated census tracts, and the presence of a valuable development infrastructure that can efficiently connect capital with projects aligned with municipal needs.



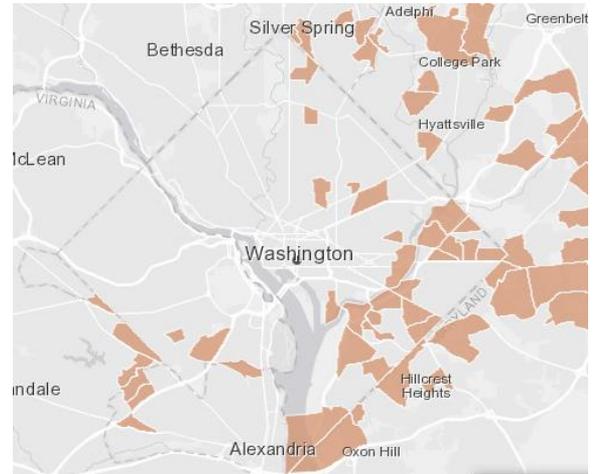
Source: Economic Innovation Group

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WASHINGTON DC: LOCAL TAX INCENTIVES

Our nation's capital is also appealing to investors in a focused manner by emphasizing specific municipal economic objectives rather than merely opening the door to all its designated census tracts.

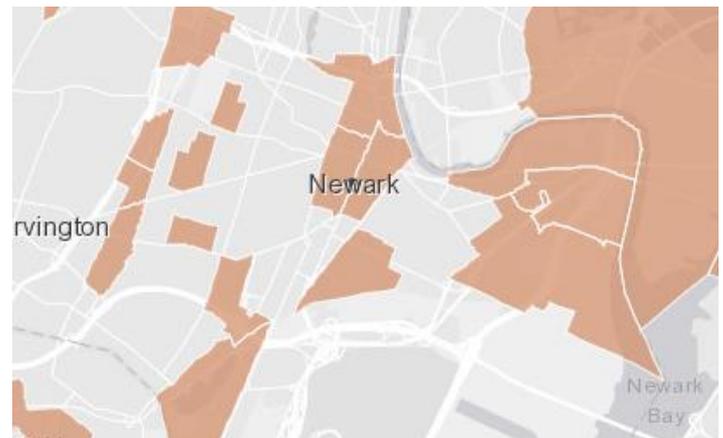
Many struggling urban neighborhoods lack large supermarkets, a resource linked to economic development, and in response DC's City Council passed a Supermarket Tax Credit. With the onset of Opportunity Zone tax incentives, DC is appealing to Opportunity Zone Funds by pairing its local targeted tax credit with much broader Federal capital investment incentives. By tying these economic incentives to a specific development goal, the City is hoping to induce capital flow where they feel it will have the greatest urban renewal impact.



Source: Economic Innovation Group

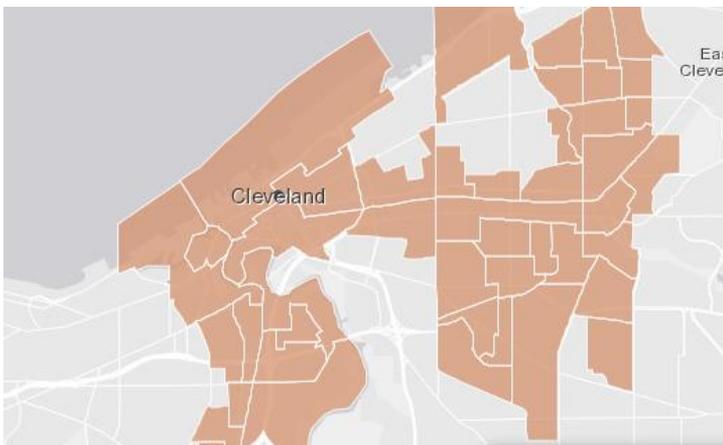
NEWARK, NJ: PARTNERSHIP AND DIRECTION

Critics of the Opportunity Zone program have at times pointed to capital chasing tax incentives, not necessarily quality real estate and business projects. Some feel local expertise is lacking, and capital risks being deployed in uneconomical projects or invested where it would have gone anyway irrespective of distressed market tax incentives. Newark NJ has taken notice and is partnering with The Rockefeller Foundation to fund a dedicated Opportunity Zone officer and related in-house technical expertise to help guide potential fund investors and steer them towards specific projects. The objective is to make it easier for Funds to make the decision to invest within Newark's Opportunity Zones and, much like Washington DC, encourage capital to go towards development initiatives the City feels are of greatest social and economic value.



Source: Economic Innovation Group

CLEVELAND OH: TARGETED CONNECTIVITY



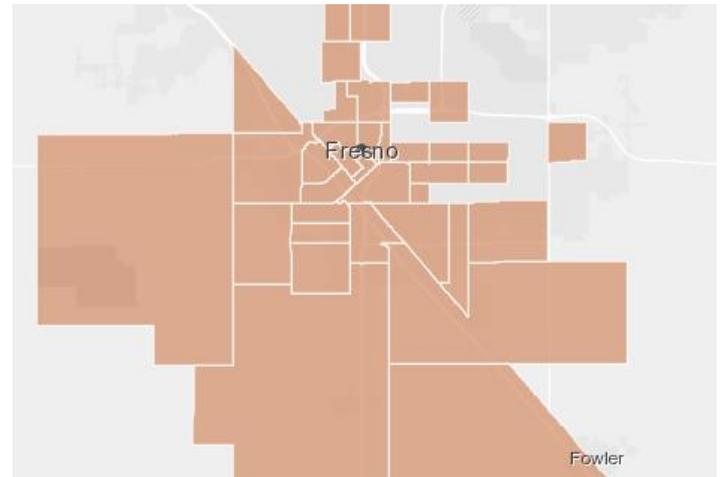
Source: Economic Innovation Group

According to The Urban Institute, Cleveland has been very selective about placing its Opportunity Zones in specific census tracts deemed best positioned to leverage economic momentum already in place in adjacent, higher growth areas. Cleveland's approach is narrowly targeted on four Opportunity Zones, not a wide array of options, and Federal Opportunity Zone tax benefits complement City and bank financing made available through Mayor Frank G. Jackson's 2017 Neighborhood Transformation Initiative. This approach may pay long-term dividends, as Cleveland's political leadership has taken a strategic, objective-based approach. By linking the federal Opportunity Zone program with local development incentives, Cleveland seeks to entice investors through affordable access to capital, economic connectivity leverage, and community-based project guidance.

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FRESNO, CA: COORDINATION AND ALIGNMENT

Fresno, CA represents an example of state and urban coordination based on a well-defined economic development strategy, in this case attracting capital flow to California's Central Valley. City planners have worked closely with Governor Newsom to ensure that Opportunity Zone tracts were carefully aligned with the local re-zoning policy established in 2015. Prioritizing symmetry between zoning and tax incentives, coupled with a high concentration of Opportunity Zones within Fresno's city limits, aims to create favorable conditions to attract Opportunity Zone fund investments.



Source: Economic Innovation Group

SELECTIVITY MAKES ALL THE DIFFERENCE

In-depth proprietary research drives every Appleton investment. We anticipate that over time clear distinctions between municipalities that benefit most from Opportunity Zone capital and those for which the gains are far more modest will become evident. We are carefully assessing how cities are positioning themselves to attract investment in targeted areas, given the potential economic multiplier effect. In our view, projecting Opportunity Zone winners early in the process can help identify bond issuers that ultimately may enjoy the sustained long-term credit improvement we seek.

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