MY VIEW

Miami 'Opportunity Zones' are rife with opportunity

BY RONALD R. FIELDSTONE
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The "Opportunity Zone" concept is receiving major attention in the real estate industry. Experts predict there will be a substantial amount of capital that will be deployed in this space in coming months.

An Opportunity Zone is an economically distressed community where new investments, under certain conditions, can qualify for tax breaks. The U.S. Department of the Treasury designated nearly 9,000 census tracts as Opportunity Zones across urban and rural areas throughout the United States. It is estimated that approximately 35,000,000 Americans live in Opportunity Zones, which have higher poverty and unemployment rates than the rest of the nation.

For Miami, this new designation is important because many of its Opportunity Zones are in areas economically viable for development. In many cases, they are on the outskirts of an urban area that is being redeveloped, such as Downtown Miami.

At Saul Ewing Arnstein & Lehr, we are working with developer groups planning mixed-use projects in that area as developers look to take advantage of the potential tax breaks including a mixed-use project next to the Brightline train station and a mixed-use project just north of the Downtown area and south of the Wynwood area.

For reference purposes, the Opportunity Zones locations in Downtown Miami are generally in two areas:

- From (East) NW First Avenue to (West) Northwest Seventh Avenue; (South) Northwest North River Drive to (North) Northwest 21st Terrace.
- And from (East) Biscayne Boulevard to (West) Northwest First Avenue; (South) Northeast 15th Street to (North) Northeast 36th Street.

Outside of downtown Miami, there is a large site near Florida International University's North Campus east of Biscayne Boulevard in North Miami that is ripe for Opportunity Zone development as well.

As more developers get familiar with this tax-break program, the demand for properties in areas formerly ignored by private capital will rise. There may be a market imbalance as there could be more capital seeking Opportunity Zone investments than economically feasible development OZ opportunities. Industry experts expect a wave of transactions during the next 12 months that will consume the Opportunity Zone pipeline and continued to be issued in the coming months.

Some of the highlights of the new Section 1400Z-2 of the Internal Revenue Code, which establishes tax benefits for qualifying investments in Opportunity Zones, include:

- An entity or an individual investor that is a partner/shareholder of an entity may defer capital gain if the investment is made within 180 days after the capital gain is realized.
- The Opportunity Zone investment is held for at least seven years, and then there is a 15 percent discount on the amount of capital gain being recognized, in addition to the deferral of the capital gain recognition until the earlier of the date of disposition of the investment or Dec. 31, 2026.
- The appreciation in the value of the Opportunity Zone project is in effect tax-free until the project is disposed of, subject to an outside limit in the year 2047.
- The Opportunity Zone property must be acquired after 2017.
- A QOF (Qualified Opportunity Zone Funds) must invest at least 90 percent of its assets in qualified Opportunity Zone property, subject to variations that allow for a 70 percent investment.
- The new investment in the Opportunity Zone property must equal or exceed the acquisition cost of the Opportunity zone property, excluding the land cost.

Industry experts predict that the economic value of Opportunity Zone fund investments will provide a significant increase in the after-tax profit from investing in an Opportunity Zone project.

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