

Opportunity Zone Update

The background of the slide is a photograph of a vibrant mural on a city wall. The mural features a central figure with a serene expression, adorned with a blue and gold headdress and jewelry. To the right, there's a depiction of a woven basket overflowing with various fruits like grapes, pears, and apples. The mural is set against a backdrop of modern city buildings with glass facades and balconies. In the foreground, there are blurred pink flowers and a few people walking on a path.

Feb. 25, 2019
CEDC Committee

Understanding Opportunity Zones

- ✓ **Tax incentive for reinvesting capital gains in Zones**
- ✓ **Bipartisan element of the Tax Cuts & Jobs Act of 2017**
- ✓ **Market-based with wide flexibility**
- ✓ **25% of qualified low-income Census tracts in each state**
- ✓ **Rewards patient capital – most benefit for 10-year hold**

What It's NOT...



Not for “passive investments”



Not a loan program; equity investments only



Not just for real estate!



Not a local program; federal level

3 Terms to Know



**Investors
with capital
gains**

**Qualified
Opportunity
Funds**

**Qualified OZ
Investments**

What's The Benefit for Investors?

Capital Gains Invested In Opportunity Fund



Temporary Deferral

Delay payment of
capital gains until
12/31/2026



Step-Up In Basis

Partial forgiveness
of up to 15%

5-year hold: 10%
7-year hold: 15%

Growth in OF Investment



Permanent Exclusion

on the growth in
value of the fund,
upon sale of
interest in the fund
(after 10 years).

Businesses in OZs Can Also Benefit

Access to capital (equity investments) and investment attraction

A “patient capital” outlook

Potentially lower cost of capital

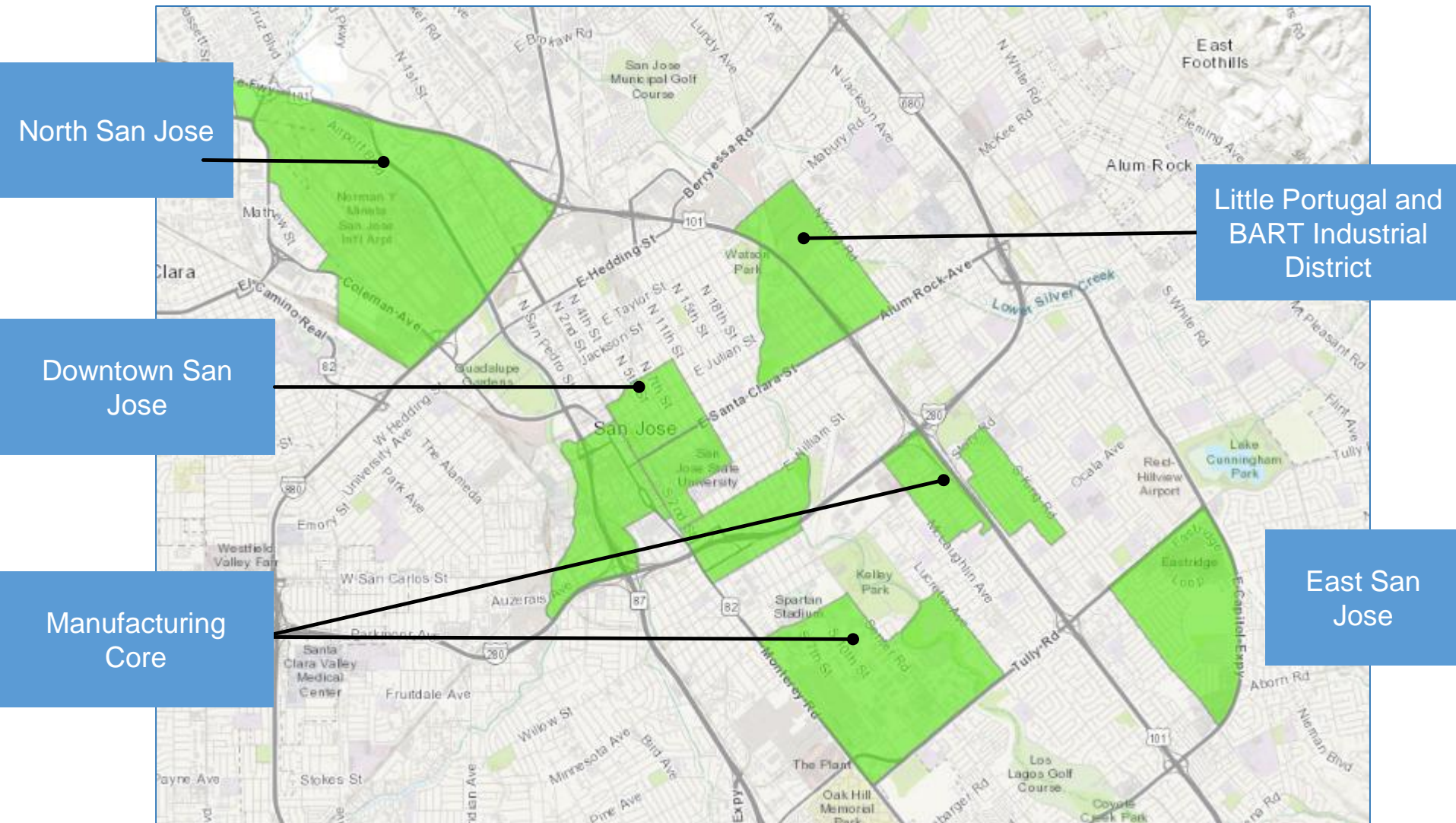
Businesses themselves can invest in OZs

But...

Many questions remain about business eligibility

Rules privilege new businesses moving into OZs, but existing businesses can access Opportunity Funds if they expand

San José's Zones in Context



What does this mean for San Jose?



Grow housing opportunities



What does this mean for San Jose?



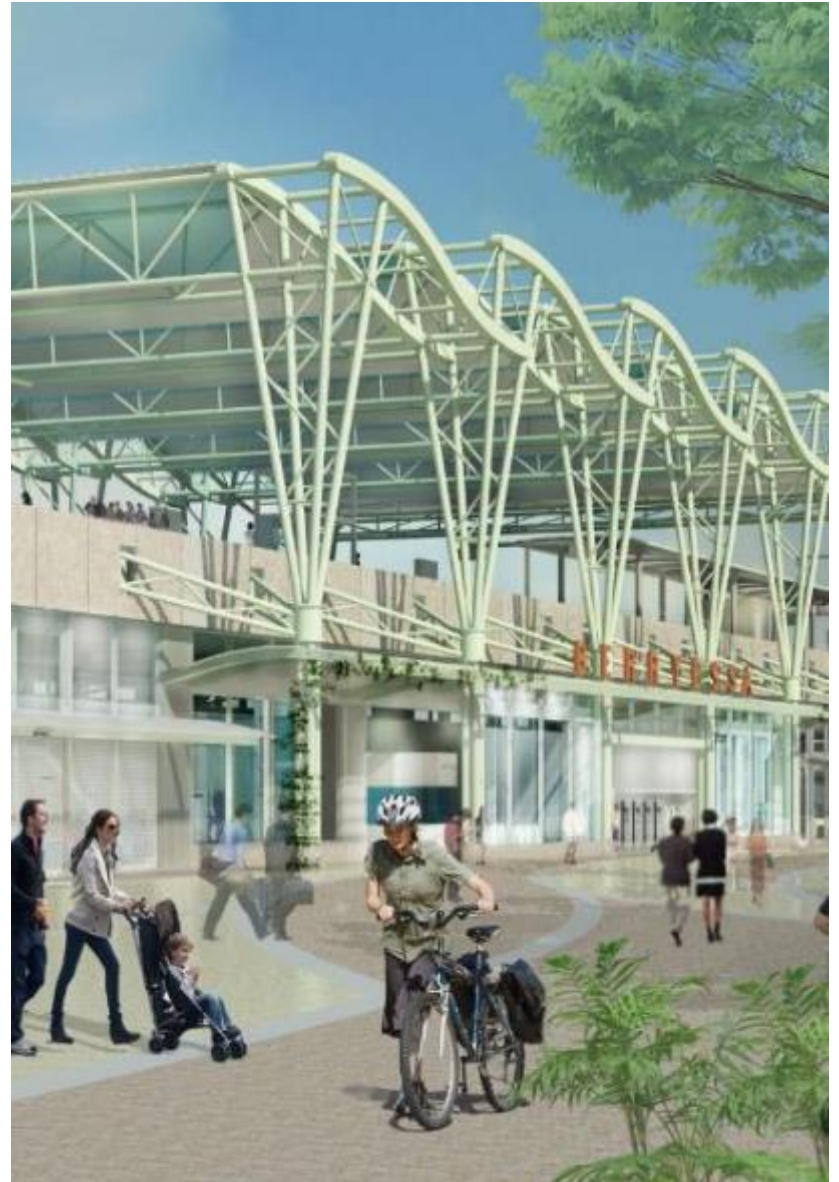
Attract startups



What does this mean for San Jose?



**Drive transit
infrastructure**



What does this mean for San Jose?



Expand middle-income jobs

What does this mean for San Jose?



**Catalytic
Investments**



Image: LaCocinaSF.org

Downtown



Washington St

10th St

200 E Santa Clara St



SJSU

E. William

South First

Martha

Google

Little Portugal



King Road

Highway 101

Alum Rock Ave

E. Santa Clara St.

Monterey Corridor



101/680



Airport Submarket



Highway 101

North First

I-880



East San Jose



Tully Road

King Road

Capitol Exp

Areas of concern

- Potential for acceleration of growth in low-income areas
- No reporting requirements
- Lack of information on non-real estate applications

Areas for Further Study

- Investing in operating businesses
- Applicability to affordable/workforce housing
- Public assets (SJSU, Airport, county land)
- Infrastructure (VTA/BART)

What We're Doing

- Outreach, convenings and information sharing
- Zone guidebook
- 'Setting the tone'
- Connections to opportunities
- Predevelopment/due diligence assistance



San Jose's Manufacturing Core: The Opportunities



Locate manufacturing businesses in the Zone

Manufacturing anchors such as Bantek (solar), Corlec (sheet metal) and Keystone Coffee and SunBasket (food) all call this area home. In addition, major logistics operations are located here such as 3PL company San Jose Distribution (which is the city's original Foreign Trade Zone). Light and heavy industrial zoning allows for flexible uses, and the area is rail-served.

The Opportunity
The City of San Jose stands ready to assist manufacturers relocating or expanding into the Zones with services such as On-The-Job-Training (which reimburses employers for training new hires), customized



Redevelop low-intensity properties for new commercial uses

The main Zone in this cluster may seem built out with dozens of industrial businesses, but there are still vacant parcels, underused parking lots and low-intensity commercial uses, such as the motel above. The area is also a rare light and heavy industrial-zoned pocket in the center of a large metropolitan area with access to major population centers.

The Opportunity
Partner with landowners to assemble sites for redevelopment for new job-supporting uses (such as manufacturing, distribution, and commercial along Monterey Road). One potential target is a

Meet market demand for a wholesale food center and food incubator

In 2018, Sustainable Agriculture and Education (SAGE) released two important studies. The San Jose Wholesale Food Center Development Prospectus describes the need for a facility to serve co-located food wholesalers, processors, and specialty food producers as well as local farmers, while improving agricultural vitality and economic health. The San Jose Food Business Incubator Needs Assessment evaluates needs of small-scale food entrepreneurs for resources including facilities, technical assistance, financial assistance, and regulatory assistance. With only 3 commercial kitchens in San Jose, 87% of entrepreneurs surveyed cited facilities as their most pressing need.

The Opportunity
The City-commissioned studies found market demand and viable business models for a wholesale food center and commercial kitchen facilities. The wholesale food center study even includes a sample pro forma outlining a potential project. SAGE and the City stand ready to assist an interested investor, developer or user with analyzing next