



NOVOGRADAC

Journal of Tax Credits™

Insights On Affordable Housing, Community Development, Historic Preservation, Renewable Energy and Opportunity Zones
February 2021 ♦ Volume XII ♦ Issue II

Published by Novogradac

Some QOFs Seek Social Impact Along with Financial Boost

BRAD STANHOPE, SENIOR EDITOR, NOVOGRADAC

Impact investing is a natural fit for the opportunity zones (OZ) space and communication is important for both sides in the transaction.

“The ability to translate how private capital functions and what community needs are is a necessary skill for successful community impact anywhere and it exists almost nowhere,” said Ross Baird, founder and CEO of Blueprint Local, a qualified opportunity fund (QOF) that helps investors find opportunities that generate financial returns and meaningful impact. “Residents have a strong idea of what they need, but they have very little fluency in how things are financed. ... Meanwhile, people with money have very little idea of what’s going on in distressed communities and very little idea about the effect of investing in a more-impactful way.”

Baird said it’s important to explain the impact to investors.

“They come to the table for the tax benefits, not with the idea of investing with social impact,” he said. “Once investors learn the details, they see it’s a great place to invest. Explaining, for instance, how a workforce housing shortage impacts the rest of the community is generally exciting and opens up people’s minds.”

The foundation of the OZ incentive is to direct capital gains into distressed areas. QOFs, the tool for funding, have a wide range of objectives—including investment in geographic areas, types of properties and types of businesses.

And for social impact.

Financial, then Social Impact

Even when social impact is a priority, financial considerations are important.

“[Investors are] driven to us because they have a large capital gain and are looking for a tax-saving-structured investment that is low risk,” said Robert Hutchins, president and managing director of Ellavoz Shared Values Opportunity Fund. “When they walk into the room, the cookies they smell is the capital gains [benefit]. Then they start to hear the story and become more of impact investors. Some then join our Ellavoz Impact Investor Network, too.”

That’s not universal.

“I think the primary motivator [for the fund’s investors] is alignment with our mission,” said Jay Bockhaus, managing partner of the Center on Rural Innovation (CORI) Fund. “The tax advantage serves as a helpful cherry on top to secure investor commitments.”

The definition of social impact varies, but CORI, Ellavoz and Blueprint Local all prioritize it. In one major way, the OZ incentive encourages social impact.

“The biggest benefit of opportunity zones isn’t [protecting] capital gains, it’s the 10-year hold,” Baird said. “Investors are used to real estate, where you put your money in and extract as much in as short a period of time as you can and get out. If you’ve got a three- to five-year hold, you can do that. But if you have a 10-year hold [as with OZs], you’re going to have to deal with the positive and negative of what happens with that project. ... In general, the biggest problem with our economy is ‘short-termism,’ people doing something easy to make a quick buck at the expense of something more sustainable, more growth-oriented in the long term. Having an incentive that takes a 10-plus-year horizon encourages people to take a long-term look.”

Origin Stories

CORI was founded three years ago by Matt Dunne, who had focused on progressive economic development policy as a state legislator and later worked remotely for Google from rural Vermont. Dunn saw that offshoring and automation disproportionately harmed rural areas after the Great Recession, leading him to establish CORI to promote tech ecosystems in smaller rural communities. The connection with OZs was serendipitous.

“All of our CORI communities are in OZs or are contiguous with them,” Bockhaus said. “There was an interesting mix between our need to launch a fund, the opportunity zones legislation being finalized and Treasury guidance making it clearer on how this would play with operating businesses. We also got vital support from the Economic Development Administration’s

Regional Innovation Strategies program, as well as private sources to get the fund launched.”

Hutchins had a similar experience with Ellavoz.

He worked for 40 years in public accounting and was involved in a series of social-impact-related affordable housing properties. Hutchins’ familiarity with tax matters came into play when the OZ incentive became law at the same time he was writing a business plan with a social impact private activity fund.

“We wanted to provide an asset class that was a transparent channel for investors who wanted to directly invest a portion of their portfolio in a social impact investment,” Hutchins said. “My mission was to create a social impact private equity firm that was low-cost and could deliver reasonable market return to investors for affordable housing and community development.”

The result was a partnership among Ellavoz Impact Capital, New Jersey Community Capital (the largest CDFI in the New Jersey) and Community Asset Preservation Corp. (the largest nonprofit housing developer in the state), with a goal of putting 80% of the funds into residential development and 20% into nonresidential development. Ellavoz’s first QOF launched in January 2020 and by the end of the year had closed two single-asset funds, one an investment in a large workforce housing property, the other an affordable housing property that will be acquired and rehabilitated.

Virginia-based Blueprint Local was founded by Baird and a series of partners after more than a decade’s experience investing for impact in distressed communities across the country. It has primarily deployed funds in the Southeast (Greenville, Richmond, Baltimore) and Texas (Austin, Houston, San Antonio). A major focus is creating wealth accumulation for whole neighborhoods.

Social Impact, Defined

For CORI's Innovation Fund, "social impact" involves bringing capital to areas that otherwise wouldn't receive much.

"Less than 1% of venture capital in the United States goes to rural areas," Bockhaus said. "It's hugely disproportionate to certain coastal cities. We are shifting that dynamic by seeking out scalable, tech-enabled business operating in rural communities."

Bockhaus said CORI's goal is financial, but retains a strong social-impact portion.

"Our primary mission as an organization is to increase economic opportunities and job growth in small communities," Bockhaus said. "Our key impact is the creation of resilient, higher-paying tech jobs in those areas. That's what we track. We have a core north star of attractive returns and meaningful impact."

If social impact is a key part of your organizational DNA, decision-making changes. That doesn't change the economics, though.

"We are trying to generate a market rate of return for our investors," Bockhaus said. "We look at a lot of deals and pass on a lot of deals. Since our launch about a year ago, we've screened over 150 companies and invested in five."

According to Hutchins, once Ellavoz finds an investment it likes, it puts together the financials, including as many community development tax incentives as possible. Hutchins said Ellavoz looks for a 12% annual internal rate of return over a 10-year period. "If it doesn't do that, it doesn't make sense," Hutchins said. "We will be able to achieve these returns because we remove every inefficiency and excess cost normally included in OZ projects and accrue these savings to our investors."

Baird said that Blueprint Local also always considers the economics.

"We've had examples where we heard there was interest [from the neighborhood] in a grocery store," Baird said. "We explored it, then we talked to all the grocery store retailers and they were uninterested in the neighborhood. If a grocery store doesn't want to go there, it's beyond our control."

Baird said it's important for the QOF to ensure that the investment is one desired in the community.

"Our first question is 'What is the community plan? Is there something the residents want?'" Baird said. "It's not our job to tell a neighborhood what they want. We ask what the project fit is in the big picture and how it matches the community plan."

The emphasis on social impact doesn't end with the investment.

Ellavoz has a chief impact officer who tours the communities and works with local stakeholders to form service partnerships.

"This isn't a marketing gig," Hutchins said. "We're really doing it. We screen out nine out of 10 deals because they're not creating a social impact."

Not Easy, But Important

Social impact investing isn't easy.

"It's not hard to convince private capital to invest in [fast-growing cities like] Austin, Texas, or Greenville, South Carolina. It's harder to convince investment in Baltimore or Birmingham, which have had a hard time recently," Baird said. "But leadership matters. There are really compelling deals coming out of there, in large part because of opportunity zones 'quarterbacks' in organizations such as Opportunity Alabama and the Baltimore Development Corporation. Having these fulltime quarterbacks dedicated to blocking and tackling can make these projects happen. Capital flows

in the path of least resistance. It requires people putting in the work to make it possible.”

The benefits of investing for social impact can lead to both economic and social benefit, something the OZ incentive is designed to accomplish.

“Capital should go to where there is the greatest need in society, so all of society gets the benefit,” Hutchins said. “Investors should get a risk-adjusted fair market return for putting capital where it’s needed most. This is Ellavoz Shared Values, investment strategy.” ❖

© Novogradac 2021 - All Rights Reserved.

This article first appeared in the February 2021 issue of the Novogradac Journal of Tax Credits. Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.

Notice pursuant to IRS regulations: Any discussion of U.S. federal or state tax issues contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any discussion on tax issues reflected in the article are not intended to be construed as tax advice or to create an accountant-client relationship between the reader and Novogradac & Company LLP and/or the author(s) of the article, and should not be relied upon by readers since tax results depend on the particular circumstances of each taxpayer. Readers should consult a competent tax advisor before pursuing any tax savings strategies. Any opinions or conclusions expressed by the author(s) should not be construed as opinions or conclusions of Novogradac & Company LLP.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.novoco.com.



EDITORIAL BOARD

PUBLISHER

Michael J. Novogradac, CPA

EDITORIAL DIRECTOR

Alex Ruiz

TECHNICAL EDITORS

Thomas Boccia, CPA
James R. Kroger, CPA
Diana Letsinger, CPA

Matt Meeker, CPA
John Sciarretti, CPA
Stacey Stewart, CPA

COPY

SENIOR EDITOR

Brad Stanhope

SENIOR MARKETING MANAGER

Teresa Garcia

COPY EDITOR

Mark O'Meara

STAFF WRITER

Caroline Gallegos

CONTRIBUTING WRITERS

Frank Altman
Grant Baskerville
Rob Bryant
Roy Chou
Jeremy Eng
Kathryn Grosscup
Cindy Hamilton

Irvin Henderson
Chris Ann Lunghino
Stephanie Naquin
Jeff Nishita
Denise Rome-Tamulis
Laura Vowell

ART

CREATIVE DIRECTOR

Alexandra Louie

CARTOGRAPHER

David R. Grubman

GRAPHIC DESIGNER

Brandon Yoder

CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS

Alex Ruiz
alex.ruiz@novoco.com
925.949.4243

ADVERTISING INQUIRIES

Christianna Cohen
christianna.cohen@novoco.com
925.949.4216

ALL MATERIAL IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS PROFESSIONAL ADVICE OFFERED BY NOVOGRADAC OR BY ANY CONTRIBUTORS TO THIS PUBLICATION.

ADVICE AND INTERPRETATION REGARDING THE LOW-INCOME HOUSING TAX CREDIT OR ANY OTHER MATERIAL COVERED IN THIS PUBLICATION CAN ONLY BE OBTAINED FROM YOUR TAX AND/OR LEGAL ADVISOR.

ADVISORY BOARD

OPPORTUNITY ZONES

Dan Altman	SIDLEY AUSTIN LLP
Glenn A. Graff	APPLGATE & THORNE-THOMSEN
Martin Muoto	SOLA IMPACT

LOW-INCOME HOUSING TAX CREDITS

Jim Campbell	SOMERSET DEVELOPMENT COMPANY LLC
Tom Dixon	BOSTON CAPITAL
Richard Gerwitz	CITI COMMUNITY CAPITAL
Elizabeth Bland Glynn	TRAVOIS INC.
Rochelle Lento	DYKEMA GOSSETT PLLC
John Lisella III	U.S. BANCORP COMMUNITY DEV. CORP.
Derrick Lovett	MBD COMMUNITY HOUSING CORP.
Thomas Morton	PILLSBURY WINTHROP SHAW PITTMAN LLP
Rob Wasserman	U.S. BANCORP COMMUNITY DEV. CORP.

PROPERTY COMPLIANCE

Kristen Han	WNC
Michael Kotin	KAY KAY REALTY CORP.

HOUSING AND URBAN DEVELOPMENT

Victor Cirilo	NEWARK HOUSING AUTHORITY
Flynann Janisse	RAINBOW HOUSING
Ray Landry	DAVIS-PENN MORTGAGE CO.
Denise Muha	NATIONAL LEASED HOUSING ASSOCIATION
Monica Sussman	NIXON PEABODY LLP

NEW MARKETS TAX CREDITS

Frank Altman	COMMUNITY REINVESTMENT FUND
Maria Bustria-Glickman	US BANK
Elaine DiPietro	BLOOMING VENTURES LLC
Chimeka Gladney	ENTERPRISE COMMUNITY INVESTMENT INC.
Merrill Hoopengardner	NATIONAL TRUST COMMUNITY INVESTMENT CORP.
Ruth Sparrow	FUTURES UNLIMITED LAW PC
William Turner	WELLS FARGO

HISTORIC TAX CREDITS

Irvin Henderson	HENDERSON & COMPANY
Bill MacRostie	MACROSTIE HISTORIC ADVISORS LLC
Claudia Robinson	BANK OF AMERICA
Donna Rodney	MILES & STOCKBRIDGE
John Tess	HERITAGE CONSULTING GROUP

RENEWABLE ENERGY TAX CREDITS

Jim Howard	DUDLEY VENTURES
Elizabeth Kaiga	DNV GL
Forrest Milder	NIXON PEABODY LLP

© Novogradac
 2021 All rights reserved.
 ISSN 2152-646X

Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.