There's opportunity in Opportunity Zones program

DARRYL JACOBS

In 2016, Census Tract 8514 in Elgin, had a population of 7,075, a median age of 28.6, and a poverty rate of 16.7 percent, according to the U.S. Census Bureau. Today, it's also one of 8,700 new Opportunity Zones, or distressed areas eligible for certain tax incentives from the federal government to encourage long-term investment.

Conceived by the Economic Innovation Group (EIG) in Washington, D.C., and created through the 2017 Tax Cuts and Jobs Act, the Opportunity Zones program allows investors to defer capital gains taxes by redeploying proceeds from the sale of an investment into designated Opportunity Funds. The funds will then be used to reinvest in the distressed community — for example, through new real estate developments or small business enterprises that support the local economy.

EIG estimates there are nearly $6.1 trillion in unrealized capital gains that would be eligible for such investments. Even if not all of that money is truly accessible, even a portion could help revitalize communities throughout Illinois and across the United States. Opportunity Zone investments may be an attractive option for the investors sitting on these unrealized gains, potentially even outperforming the stock market.

The longer an investor keeps capital in the fund, the more benefits they and the community they invest in stand to receive. The three primary tax benefits include:

- A temporary deferral. Initially, investors defer taxation of their capital gains by reinvesting into an Opportunity Fund. This capital gains tax deferral results in significant time value of money benefits.
- A step-up in basis. Capital gains taxes decrease as the holding period increases. After five years, investors receive a 10 percent basis step-up. After seven years, investors receive an additional 5 percent basis step-up. If not sold sooner, taxes on 85 percent of the invested gains will be due on December 31, 2026.
- Permanent exclusion. If the fund is held for at least 10 years, no capital gains tax will be collected on appreciation beyond the original investment; taxes are only paid on 85 percent of the original reinvested gains.

While the program carries many benefits, it's important for investors to do their due diligence, as some deals could carry higher risk depending on where they're located. As is the case with most investments, the key is diversification. My law firm, Ginsberg Jacobs LLC, continues to educate and advise clients as early adopters begin to raise funds and identify qualifying investments. At this writing, there are still many details to be worked out, including reporting requirements and deployment time frames; both public and private entities are awaiting further guidelines from the Treasury Department.

What we do know is that the United States has many communities that are in need: In 2016, 40.6 million people in the United States were living in poverty, according to the U.S. Census Bureau. Governors of each state were asked to submit lists of distressed areas for consideration to be Opportunity Zones. In Illinois, there are 327 Opportunity Zones, including a handful in the north and northwest suburbs of Chicago. They include two in Carpentersville, one in Palatine, three in Waukegan and North Chicago, and three in Elgin, including the one mentioned above. You can view a map of Opportunity Zones here.

In Chicago, there are more than 130 Opportunity Zones, many in low-income, high-unemployment areas on the South and West sides. They include high-profile properties like the former Michael Reese Hospital, the long-vacant U.S. Steel South Works site, a tract north of the United Center near the planned Damen Green Line stop, and many more.

Can private investment help turn around these underserved communities? It remains to be seen.

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A lifestyle to fit young and old

Millennials and downsizers find common ground in suburban developments

A view of the Chicago skyline from Navy Pier in Chicago. Millennials who choose to live in the suburbs still want many of the things an urban area has to offer.

DAILY HERALD FILE PHOTO

While record numbers of luxury high-rise apartment towers are rising up in Chicago — in 2017, developers completed 4,348 apartments in the greater downtown Chicago area, the most ever in one year, according to a report from consulting firm Integra Realty Resources — the Northwest suburbs are experiencing a building boom of their own.

STEVE SPINELL

As millennials hit the pivotal age for starting families and reaching their earning potential, many are looking to the suburbs for more space, good public schools and a less hectic pace of life. At the same time, some older buyers are looking for a maintenance-free lifestyle closer to an active suburban downtown.

So, is there housing product that will satisfy both of these key demographics simultaneously? Yes and no.

As a construction firm working on multifamily projects across the Northwest suburbs, we have a unique perspective on the needs of these two groups. One key insight is that while empty nesters and millennials are both transitioning to new phases of life — albeit different stages — they have very similar housing wish lists.

Renting a luxury lifestyle

For the past five years, we have seen an uptick in rental development in the suburbs, particularly with luxury apartment communities. According to data from Marcus & Millichap and MPF Research, rental construction reached its highest level in more than a decade last year in the Chicago suburbs, and 2018 is shaping up as another busy year. More than 4,200 units were completed in 2017, and about 3,900 more units are projected for this year.

These projects are drawing millennials, baby boomers, single parents and work transferees, due to their refined and sophisticated features, such as high-end appliances, stylish finishes, gourmet kitchens and spacious bedrooms.

Clubhouses are a must-have at these communities, with amenities like a theater room, entertainment space, fitness center, pool, dog runs, fire pits and grills.

Another increasingly important factor in today's suburban rental climate is location. While many millennials, which is a generation 71 million strong and rivals only boomers at 74 million, according to the U.S. Census Bureau, are heading to the suburbs, there are aspects of urban life they are not willing to forgo. Foremost is a home in a walkable location to public transit as well as restaurants, shopping and entertainment.

One local example of this is our Deer Park Crossing project in Deer Park. Located just steps from the popular Deer Park Town Center lifestyle center, the 256-unit community offers a mix of apartments and rental townhomes.

Look for thriving suburban downtowns with access to the Metra, such as Glen Ellyn, Downers Grove and Elmhurst, as areas where developers are looking to build high-end rental to meet the current demand.

The rise of the townhome

As recently noted by Forbes, there's also been an increase in suburban for-sale multifamily development, particularly with townhomes near strong suburban downtown districts.

Take Roslyn Meadows, a small community of 14 luxury townhomes in downtown Barrington, as an example.

While families like being in Barrington's great school district, the community also has a floor plan with a first-floor master suite to appeal to older buyers. We also are building 18 townhomes at the Port Clinton community near the Vernon Hills Town Center.

Both developments are expected to draw young couples and families, as well as downsizers, looking for the benefits of homeownership, but with a low-maintenance lifestyle.

Aging Boomers reshaping real estate

According to the U.S. Census Bureau, by 2029, more than 20 percent of the total U.S. population will be over the age of 65.

As this generation ages, supplying suburban multifamily housing for this segment will play a big factor in the local real estate market.

Therefore, one area of the burgeoning multifamily market that will not experience crossover between millennials and downsizers will be senior lifestyle developments.

One particular sector of senior development where we see growth are communities with specialized care components, like Verandah, an age-restricted community we're working on in Hanover Park. Designed for ages 55 and over, Verandah offers a creative mix of independent living townhomes, villas and condos, as well as assisted living studios and memory care services, along with indoor and outdoor on-site amenities.

In sum, there is no shortage of opportunities for developers to deliver housing that will meet the needs of buyers young and old throughout the suburbs.

And many times, these communities have more in common than you may think.

• *Steve Spinell is principal of Kinzie Real Estate Group, which has offices in Vernon Hills and Chicago.*

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Certainly, at a time of rising interest rates, Opportunity Zone incentives may fill financing gaps for projects that, while transformational, might otherwise be difficult to finance. EIG stresses that success will probably look different in every community, because every community has different needs – and that Opportunity Zone projects alone will not be enough. Ultimately, experts hope Opportunity Zones will better connect communities with equity capital, which in turn will catalyze new business, innovation and opportunity.

• *Darryl Jacobs is a founding partner of Ginsberg Jacobs LLC, a Chicago-based law firm that provides comprehensive legal solutions in the areas of real estate, finance, taxation, tax credits, litigation, corporate, and trusts and estates planning. He received his J.D. from Harvard Law School and B.S. from the University of Illinois.*