FHA-Insured QOF Opportunity Zone Case Studies

	Case Study #1	Case Study #2	Case Study #3
Type of Transactions/SOA:	221(d)(4)	221(d)(4)	221(d)(4)
Market Rate or Affordable:	Market Rate	Market Rate	Market Rate (Workforce – no restriction)
New Construction or Sub Rehab:	New Construction	New Construction	New Construction
Location:	Lakeland, FL	Alabama	D.C.
Census Tract:	164	115.02	N/A
Urban/Suburban/Rural:	Urban	Suburban	Urban
Loan Amount:	$48,798,400	$22,495,600	+/-$43,000,000
Total Development Costs:	$55,161,891	$29,203,518	+/- $60,000,000
QOF Relationship to Developer:	Both. The developer is investing their funds through the QOF but so are the investors. The QOF is just the mechanism to qualify for the tax benefits.	Arm's Length. The QOF Fund will work much like a LIHTC fund where all the equity is supplied by the QOF fund rather the developer. In return, the developer will defer or invest his development fee and GC profit into the project.	Independent.
QOF Sponsor:	Framework Group	John Huff Consultants, Inc.	Ravinia Group
QOF Sponsor Type:	Private individuals investing in the QOF	A QOF syndicator will sponsor the QOF fund and commence an equity raise among private investors.	Private individuals investing in the QOF
Amount of QOF Investment:	$6.5M (100% of the equity)	$5,000,472 (100% of the equity)	+/-$15M (~85% of the equity)
Amount of Other Equity:	None	None	+/- $2M
Equity Pay In:	100% Upfront	100% upfront	100% Upfront
Mortgage Credit Needed on QOF:	Should be minimal, as these will be newly formed single asset entities. To date, we have not done any mortgage credit underwriting as the entities are still to be formed.	We plan to treat the OZ investor as a passive investor and have them execute a certification confirming they qualify pursuant to MAP Guide section 8.3.A.2	Similar to a LIHTC execution. Confirm funding of Mortgagor (over $10 million) Partial mortgage credit underwriting of both the sponsor behind the QOF and Developer.
Structure of Ownership Incorporating the QOF:	Single Asset LLC	Single Asset LLC	Single Asset LLC

FHA-Insured QOF Opportunity Zone Case Studies

	Case Study #1	Case Study #2	Case Study #3
Timing Concerns/OZ Related Deadlines:	QOF has to identify the investment by 12/31/2019. Please note that the property **<u>does not</u>** need to break ground by 12/31/2019 to qualify as a QOF. The property has to be substantially improved 30 months following initial investment in to the QOF.	QOF will begin their equity raise once the firm application has been fully underwritten. Once the initial equity tranche has been raised in the upper tier (fund level), the QOF proceeds must be spent within six months to preserve its tax incentives. The definition of spent is sending money to the lower tier (mortgagor entity). However, the QOF would be reluctant to send any money to the lower tier without a firm commitment. Therefore, expeditious processing at HUD is critical or the funds raised become ineligible for tax benefits. Additionally, once the QOF funds are sent to the lower tier, the developer has 30 months to close and complete construction placing all buildings in service. Therefore, a long closing or long firm application review with HUD could also cause the funds to become ineligible for tax benefits.	QOF had to fund the Mortgagor by 4/15/2019.
Was the Development Going to Happen Anyway/Conceived Prior to OZ Program:	Yes. Whether it was financed with HUD was solidified with the matching long term 10 year hold.	Yes. This transaction previously received a firm commitment from HUD. We are now doing a direct to firm application. It did not close originally b/c of the increase in construction costs and the owners decided to scale back the project.	NO! Before the OZ legislation, the developer was not successful in securing outside equity.
Additional Underwriting Concerns:	No additional risks identified on a loan level. Even if the partnership was in violation of the IRS rules for the OpZone there is no more risk to HUD as the benefits deal with partnership cash flows not property cash flows.	No additional risks identified at this time. We are preparing the Direct-to-Firm Application now.	None
Additional Legal Concerns:	Minimal. Because the QOF needs to own the property there will be necessary pass thru entities in the org chart that will need to be underwritten. There will certainly be different org structures from different developers for tax reasons. Legal should be able to verify conformity.	None. We anticipate the QOF ownership would be structured similar to a LIHTC structure or any structure with a passive investor. So nothing HUD hasn't seen before.	None

FHA-Insured QOF Opportunity Zone Case Studies

	Case Study #1	Case Study #2	Case Study #3
Other Programs Used (LIHTC, HTC, Etc.):	None	None	None
State or Local OZ Incentives:	None	None	None
Grants, Loans, Tax Abatements, Fee Deferrals, Etc.:	None	None	30-year real estate tax abatement
Subordinate Debt:	None	None	None
Other Unique Features Related to the OZ or Transaction:	The QOF has to keep investment for 10 years in order to qualify for no capital gains.	10-year hold once all buildings are placed in service to qualify for capital gain relief.	Similar 10-year hold
Anything Else Underwriters (Lender & HUD) Should Be Aware Of:	The QOF has to have direct ownership in the borrower thus there needs to be an additional pass thru entity/entities that need to be underwritten. If the loan closes after 12/31/2019 the lender should verify that the QOF has been formed with initial investment before 12/31/2019.	The QOF will typically be either a passive or active principal in the mortgagor entity and hold ownership interests in the property. If the QOF funds the IOD and working capital reserves all escrows must be spent on project costs and cannot be returned to QOF or developer. The verification of deposit requirement of the firm application should accept an equity commitment letter from the QOF as evidence of funds. There is an ongoing equity raise which will begin just prior to lender firm application submittal and end during the HUD closing period. The QOF cannot begin this process too early or the funds may become stale and may lose their tax benefits. Therefore there is no way the QOF can show the funds available to satisfy HUD's verification of deposit requirement for the firm application since it is much too early to complete an equity raise.	Similar