Understanding Qualified Opportunity Zone Funds

Sweeping Legislation

The "Investing in Opportunity Act" included in the Tax Cuts and Jobs Act, passed in December 2017, introduced an innovative way to stimulate private investment in low-income communities. The program rewards investors with significant tax savings for their commitment of long-term investment capital.

Each state governor was provided the opportunity to select up to 25 percent of the Qualified Opportunity Zones ("QOZ") in their jurisdictions to develop economically depressed areas. To qualify, the area needed to meet certain low-income requirements including a higher than 20 percent poverty rate or a prevailing median family income that does not exceed 80 percent of the metropolitan median family income.

In total, over 8,700 QOZs, home to more than 35 million Americans, were designated in 50 states, Washington, D.C., and U.S. territories. In the aggregate, the designated QOZs manifest an average poverty rate of 31 percent and a median family income of 59 percent relative to its applicable area. Approximately 75 percent of QOZs are located within metropolitan areas.

The property depicted was previously developed and owned by Griffin Capital or its affiliates and does not represent any particular investment offering.

"Opportunity Zone Fund legislation is a meaningful catalyst for private sector investment to facilitate job creation and sustained positive long-term economic impacts in the communities in which it is available. We are proud to help facilitate that opportunity on behalf of both the investors we serve and the communities in which we invest."

ERIC KAPLAN
PRESIDENT | GRIFFIN CAPITAL PRIVATE EQUITY

What is a Qualified Opportunity Zone ("QOZ")?

A QOZ IS A LOW-INCOME COMMUNITY ("LIC") CENSUS TRACT AREA IN WHICH:

- The poverty rate for such LIC is at least 20 percent.
- Or if the LIC is located in a metropolitan area, the median household income does not exceed 80 percent of the metropolitan area median household income.
- If the LIC is not located in a metropolitan area, the median household income does not exceed 80 percent of the statewide median household income.

States submitted areas to be designated QOZs, following certain rules; no more than 25 percent of LICs in a state could be designated as QOZs, though states with fewer than 100 LICs could designate up to 25 QOZs even if that exceeded 25 percent of the total LICs.

Once designated, the QOZ distinction will remain for 10 years and cannot be modified or withdrawn. The QOZ designation date has been extended through December 31, 2047 for purposes of an election to defer gain.

Note: The census data is derived from the last census, which was conducted in 2010. As such, certain areas designated as a QOZ may have already experienced meaningful investment and/or gentrification.


The development depicted was a previous property owned by Griffin Capital and does not represent any particular investment offering.

What is a Qualified Opportunity Zone Fund?

A QUALIFIED OPPORTUNITY ZONE FUND ("QOF") IS A FUND:

- Organized as a corporation or a partnership.
- Invests a minimum of 90 percent of its assets in Qualified Opportunity Zone Business Property ("QOZBP") — this test is implemented on the last day of the QOF's taxable year and on the last day of the first six-month period of the QOF's taxable year.

Note: Cash invested in the QOF may be considered QOZBP for purposes of the 90 percent test, if (i) there is a written plan identifying the working capital as held for the acquisition, construction or substantial improvement of tangible property in the QOZ, (ii) a written schedule documenting that the working capital assets will be used within 31 months and (iii) the business complies with the schedule (this recent Treasury clarification enables QOF sponsors to logistically raise capital and invest in multi-year development projects while still complying with the legislation).

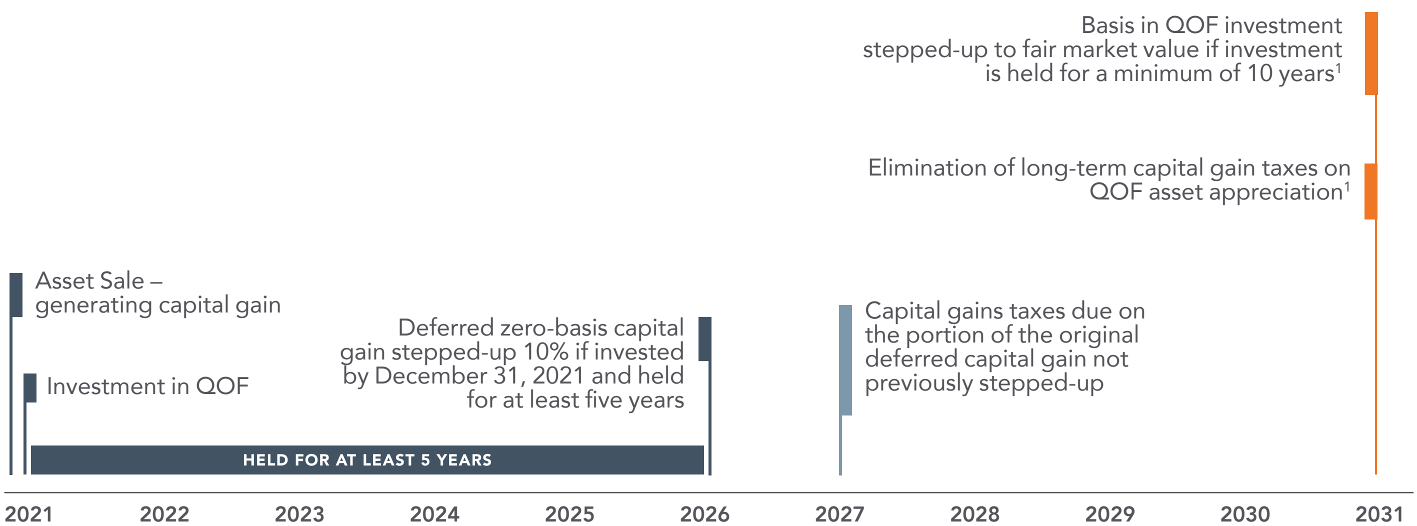
Potential Tax Benefits Available to a QOF Investor

Qualified Opportunity Zone legislation offers QOF investors a powerful potential combination of tax incentives, including deferral of capital gains taxes, a step-up in basis and tax-free growth. Prior to December 31, 2026 (the "Investment Cutoff Date"), if an investor sells any asset (not limited to a real estate asset) that generates a capital gain and invests an amount equal to that gain (or a lesser amount) in a QOF within 180 days thereof, the taxpayer could receive the following benefits:

- **Deferral** of the taxes owed on the initial capital gain
- **Reduction** of that initial capital gain by 10 percent if the QOF investment is held for five years (if invested by December 31, 2021)
- **Elimination** of capital gain taxes from realized appreciation in the QOF, provided the investor's holding period is 10 years or more

QOZ INVESTMENT TIMELINE:

Three Elements of Tax Benefits



1. Investor has 180 days from capital gain realization to invest in a Qualified Opportunity Zone fund. Basis step-up to fair market value and elimination of long-term capital gain taxes on QOF asset appreciation are applicable to federal and most state taxes, however, some states have not conformed to this federal legislation. Investors should consult their own tax advisor to determine their individual benefits in a QOF investment.

TAX BENEFIT ILLUSTRATIVE COMPARISON CHART:

Assumptions

• Capital Gain Proceeds from Sale	$1,000,000
• LT Cap Gains Tax Rate (Federal + ACA)	23.80%
• State Tax[2]	5.00%
• Non-QOF Private Placement Investment (IRR)[3]	9.00%
• QOF (IRR)[3]	9.00%

Non-QOF Private Placement Investment vs. QOF Investment

	Non-QOF Private Placement Investment	QOF Investment
Investment Year	**2021**	**2021**
Capital Gain Reinvested	$ 1,000,000	$ 1,000,000
Capital Gain Taxes Payable	$ (288,000)	—
End of Deferred Period	**2026**	**2026**
Capital Gain Taxes Payable	—	$ (259,200)
End of 10-Year Investment Period	**2031**	**2031**
Future Value of Investment	$ 2,367,364	$ 2,367,364
Taxes Due	$ (393,801)	—
Net After Tax Proceeds	$ 1,973,563	$ 2,367,364
Summary of QOF Tax Benefit Differential		
Initial Capital Gain	$ 1,000,000	$ 1,000,000
Gain on Investment	$ 1,367,364	$ 1,367,364
Taxes Paid	$ (681,801)	$ (259,200)
Net After Tax Proceeds	$ 1,685,563	$ 2,108,164
Net After-Tax Cash Benefit of QOF Investment		**$ 422,601**
Relative Increase in Distributable After-Tax Cash		***25.07%***
Net After-Tax IRR Benefit of QOF Investment		**2.94%**
Pre-Tax Equivalent IRR Benefit of QOF Investment		**4.13%**

This illustration does not represent any particular QOF investment. It is merely a hypothetical illustration based on the assumptions listed to show the potential tax benefits of investing in a QOF investment. The tax rates and returns used in the assumptions of this example may vary greatly and should not be construed as any results you would achieve in a QOF investment. This information should not be construed as tax advice. Investors should consult their own tax advisors to determine their individual benefits in a QOF investment.

2. We used a hypothetical state tax of 5%; state taxes vary and calculations will change based on both state tax rates and conformance with the QOZ rules. Some states don't have any taxes or have tax rates under the 5% used in this illustration, and as such the tax benefit differential for residents of those states could be substantially lower than what is shown. Likewise, there are some states that have tax rates above 5% and residents of those states could have a substantially higher tax benefit differential than what is shown in this hypothetical illustration.
3. Represents the incremental, pre-tax, internal rate of return (IRR) necessary for the Non-QOF Private Placement Investment to achieve the same IRR as the QOF investment.
   – If the Non-QOF Private Placement Investment and QOF Investment each were to achieve a 6.0% IRR instead of a 9% IRR, the resulting Pre-Tax Equivalent of IRR Benefit of the QOF Investment drops from 4.13% to 2.94% with an after-tax difference of $256,564 between the two investments.
   – If each were to achieve a 3% IRR, the resulting Pre-Tax Equivalent of IRR Benefit of the QOF Investment drops to 1.52% with an after-tax difference of $127,848.

However, there are no guarantees there will be a positive IRR in any investment.

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IMPORTANT RISK FACTORS

An investment in a Qualified Opportunity Zone Fund is subject to various risks, including but not limited to:

- No public market currently exists, and one may never exist, for the interests of any Qualified Opportunity Zone Fund. Qualified Opportunity Zone Funds are not liquid.
- Qualified Opportunity Zone Funds offer and sell interests pursuant to exemptions from the registration provisions of federal and state law and, accordingly, those interests are subject to restrictions on transfer.
- There is no guarantee that the investment objectives of any particular Qualified Opportunity Zone Fund will be achieved.
- Investments in real estate are subject to varying degrees of risk, including, among other things, local conditions such as an oversupply of space or reduced demand for properties, an inability to collect rent, vacancies, inflation and other increases in operating costs, adverse changes in laws and regulations applicable to owners of real estate and changing market demographics.
- The acquisition of interests in a Qualified Opportunity Zone Fund may not qualify under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code") for tax-deferred exchange treatment.
- The actual amount and timing of distributions paid by a Qualified Opportunity Zone Fund is not guaranteed and may vary. There is no guarantee that investors will receive distributions or a return of their capital.
- Qualified Opportunity Zone Funds depend on tenants for their revenue and may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.
- Disruptions in the financial markets and challenging economic conditions could adversely affect a Qualified Opportunity Zone Fund.
- Disruptions in the financial markets and challenging economic conditions, including as a result of a pandemic such as the recent outbreak of COVID-19, could adversely affect a Qualified Opportunity Zone fund.

Not a deposit	May lose value	No bank guarantee
Not insured by the FDIC, NCUA or any other government agency		