GRIFFIN CAPITAL

QUALIFIED OPPORTUNITY ZONE FUND INVESTING

Qualified Opportunity Zone Fund After-Tax Comparative Benefit

California Resident Example

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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:

- Interest in Qualified Opportunity Zone Funds is typically illiquid and no public market for such interest may exist now or in the future.
- Qualified Opportunity Zone Funds typically 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 tax benefits associated with an investment in a Qualified Opportunity Zone Fund are contingent upon compliance with rules set forth in the Internal Revenue Code of 1986, as Amended, particularly those set forth in Sections 1400Z-1 and 1400Z-2 and any Treasury Regulations or other U.S. Internal Revenue Service (“IRS”) guidance promulgated thereunder. Failure to comply with these requirements could result in penalties or loss of potential tax benefits.
- 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 outbreak of COVID-19, could adversely affect a Qualified Opportunity Zone fund.

What are the relative tax benefits associated with an investment in a Qualified Opportunity Zone Fund (“QOF”) and how may that change if capital gains tax rates increase?

In order to help address these questions, we assume the following for purposes of the enclosed comparative financial analysis:

- Two investment opportunities earn the same return, one is in a Qualified Opportunity Zone Fund (the “QOF Investment”) and the other is not (the “Non-QOF Private Placement Investment”).
- The internal rate of return for both investments is 9.0%.
- Investor deploys $1 million in net capital gains into each investment in 2022.
- The investor is a California taxpayer, which state’s tax legislation does not conform to the Federal QOZ legislation contained in Subchapter Z of the Internal Revenue Code. As such, we apply the highest marginal tax rate in California of 12.3%.
- The long-term capital gains tax rate utilized is 20.0% plus the Affordable Care Act tax of 3.8%, for a total tax rate of 23.8%.
- The investment duration is 10 years thereby allowing for the 100% fair market value basis step-up in the QOF Investment to the investor.
- There are no interim distributions of debt-financed proceeds or operating cash flow.

Based upon these assumptions, we note the following:

- The initial net $1 million capital gain investment yields total Net After Tax Proceeds to the investor of approximately $1.51 million for the Non-QOF Private Placement Investment as opposed to approximately $1.83 million for the QOF Investment, a relative increase in Distributable After-Tax Cash Flow of $325,433 - 21.51% more than the Non-QOF Private Placement Investment.
- This differential equates to a 2.1% increase in the Net After-Tax Internal Rate of Return to the QOF Investment.

These examples do not represent any particular QOF investment.

They are merely hypothetical examples 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 these examples 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.

How will the relative tax benefits change should the combined federal long-term capital gains tax rate increase to 43.4%? Am I better off paying the capital gains tax now if I think these rates are going to increase?

Based upon the same previous assumptions, and an increase in the highest combined marginal tax rate to 43.4% (inclusive of the 3.8% Affordable Care Act tax), we note the following:

- The initial net $1 million net capital gain investment yields total Net After Tax Proceeds to the investor of $1.04 million for the Non-QOF Private Placement Investment (a decline of 30.67% compared to the existing capital gains tax rate example) as opposed to approximately $1.64 million for the QOF Investment (a decline of approximately 10.66% compared to the existing capital gains tax rate example), a relative increase in Distributable After-Tax Cash Flow of $593,436 – 56.59% more than the Non-QOF Private Placement Investment.
- The reason the After-Tax Proceeds are impacted more on the Non-QOF Private Placement Investment relative the QOF Investment is the significant increase in taxes due when the Non-QOF Private Placement Investment is liquidated in 2032. The tax-free growth in the QOF Investment provides significant relative after-tax benefit.
- This differential equates to a 3.74% increase in the Net After-Tax Internal Rate of Return to the QOF Investment.
- Isolating the increase in capital gains tax rates and comparing the two QOF Investments with the differing tax rates, the investor's Net After-Tax Internal Rate of Return over the 10-year holding period is reduced approximately 1.30% as a result of the increase in capital gains tax rates.

KEY TAKEAWAYS:

- Based upon the above analysis, investing in the QOF Investment is significantly accretive to investor returns relative to paying capital gains taxes today and investing in a Non-QOF Private Placement Investment.
- This relative benefit still holds true, and is in fact more positively impactful to the QOF Investment, should capital gains taxes be increased in the future.

QOZF AFTER-TAX COMPARATIVE BENEFIT

Hypothetical Assumptions		
Realized Capital Gain for Investment		$1,000,000
LT Cap Gains Rate (Federal + ACA)		23.8%
Taxpayer's State	California	12.3%
Conforming State Legislation?		No
Non-QOF Private Placement Investment (annual IRR)		9.0%
QOF (annual IRR)		9.0%

	Non-QOF Private Placement Investment	QOF Investment
Investment Year	**2022**	**2022**
Capital Gain Reinvested	$1,000,000	$1,000,000
Capital Gain Tax Paid on Realized Gain	(361,000)	(123,000)
End of Deferral Period	**2026**	**2026**
Capital Gain Taxes Payable in 2027	—	(238,000)
End of 10-Year Investment Period	**2032**	**2032**
Future Value of Investment	2,367,364	2,367,364
Taxes due	(493,618)	(168,186)
Net After-Tax Sales Proceeds	$1,873,745	$2,199,178
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	(854,618)	(529,186)
Net After-Tax Proceeds	$1,512,745	$1,838,178
Net After-Tax Cash Benefit of QOF Investment		**$325,433**
Relative Increase in Distributable After-Tax Cash		***21.51%***
Non-QOF Private Placement Investment After-Tax IRR		3.25%
QOF After-Tax IRR		*5.35%*
Net After-Tax IRR Benefit of QOF Investment		**2.10%**

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QOZF AFTER-TAX COMPARATIVE BENEFIT

(Assuming an increase in the Combined Federal Capital Gains Tax Rate to 43.4%)

Hypothetical Assumptions		
Realized Capital Gain for Investment		$1,000,000
LT Cap Gains Rate (Federal + ACA)		43.4%
Taxpayer's State	California	12.3%
Conforming State Legislation?		Yes
Non-QOF Private Placement Investment (annual IRR)		9.0%
QOF (annual IRR)		9.0%
	Non-QOF Private Placement Investment	**QOF Investment**
Investment Year	**2022**	**2022**
Capital Gain Reinvested	$1,000,000	$1,000,000
Capital Gain Tax Paid on Realized Gain	(557,000)	(123,000)
End of Deferral Period	**2026**	**2026**
Capital Gain Taxes Payable in 2027	—	(434,000)
End of 10-Year Investment Period	**2032**	**2032**
Future Value of Investment	2,367,364	2,367,364
Taxes due	(761,622)	(168,186)
Net After Tax Sales Proceeds	$1,605,742	$2,199,178
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	(1,318,622)	(725,186)
Net After-Tax Proceeds	$1,048,742	$1,642,178
Net After-Tax Cash Benefit of QOF Investment		**$593,436**
Relative Increase in Distributable After-Tax Cash		***56.59%***
Non-QOF Private Placement Investment After-Tax IRR		0.31%
QOF After-Tax IRR		*4.05%*
Net After-Tax IRR Benefit of QOF Investment		**3.74%**

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