Understanding Qualified Opportunity Zone Funds

Sweeping Legislation

The “Investing in Opportunity Act” was ushered into the tax code in December 2017, introducing an innovative way to stimulate private investment in low-income communities. The program, which was passed with bipartisan and bicameral support, intends to reward 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% of the eligible census tracts to be designated as Qualified Opportunity Zones in an effort to stimulate private sector investment in these communities. To qualify, the census tract needed to meet certain low-income requirements, including a higher than 20% poverty rate or a prevailing median family income that does not exceed 80% of the metropolitan median family income.

In total, over 8,700 QOZs, encompassing approximately 12% of total U.S. land mass and home to 35 million Americans, were designated in 50 states, Washington, D.C., and U.S. territories.

Source: https://eig.org/news/opportunity-zones-map-comes-focus.

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 designated communities. 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 COMPANY

What is a Qualified Opportunity Zone?

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

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

States submitted areas to be designated QOZs, following certain rules; no more than 25% 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% of the total LICs.

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% 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% 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 referred to as a "Working Capital Safe Harbor;" this provision enables QOF sponsors to logistically raise capital and invest in multi-year development projects while still complying with the legislation.

Source: American Community Survey 2011-2015.https://eig.org/wp-content/uploads/2018/02/Guidance-for-Governors-FINAL.pdf.

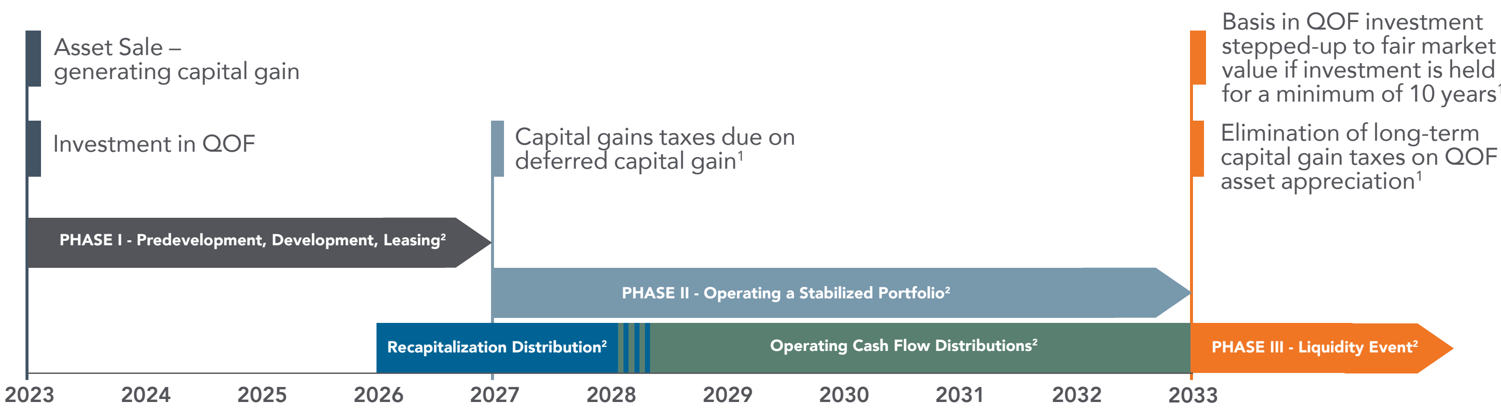
Potential Tax Benefits Available to a QOF Investor

Qualified Opportunity Zone legislation offers QOF investors a powerful potential combination of tax incentives, including deferral of capital gains taxes 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 inves

- **Deferral:** Tax liability on capital gains invested in a QOF is deferred until December 31, 2026.
- **Elimination:** Capital gains tax on appreciation of QOF investment is eliminated if interest in the fund is held for at least 10 years.

QOF INVESTMENT TIMELINE:

Elements of Tax Benefits



QOF INVESTMENT DEADLINES:

Capital Gains Recognized by Individuals:

The deadline to invest realized capital gains (all or part) into a QOF is 180 days after the gain recognition. This investment can span across calendar years.

Capital Gains Recognized and Distributed Through a Pass-Through Vehicle:

Investors realizing capital gains through a pass-through vehicle must still invest all or part of those gains into a QOF within 180 days. However, investors may elect to start the 180-day window one of three ways:

1. On the date of sale/gain recognition;
2. On the last day of the pass-through vehicle's taxable year, if the capital gain is reported to the investor on Schedule K-1 (i.e. December 31 for pass-through vehicles with calendar year-ends) or
3. The due date of the pass-through vehicle's tax return (i.e. March 15 for pass-through vehicles with calendar year-ends).

1. Capital gains deferral, 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, but, 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.
2. **These timelines are hypothetical in nature and do not reflect any actual QOF investment. Actual timelines of a QOF investment may differ materially. QOF investments are subject to various risks that should be reviewed carefully before investing. The ability of an actual QOF investment to achieve stabilization or pay recapitalization and operating cash flow distributions depends on the performance of the investment and may not occur.**

Common QOF Investor Profiles

Qualified Opportunity Zone Funds may provide significant tax incentives for investors with capital gains. The utilization of a QOF may be an impactful component of tax, estate and financial planning for many different types of investors realizing capital gains.

Securities Sale:

- Re-balancing a securities portfolio with embedded capital gains
- The sale of concentrated position(s)
- Potentially generate tax-free growth[2] from QOF investment along with tax-advantaged income
- Reallocate basis and capital gains not invested in a QOF

Business Sale:

- Provides the ability to spread a potentially large tax liability over multiple tax periods
- Allows for proactive tax planning for the deferred capital gain
- Creates a pool of capital that can potentially generate tax-advantaged income and grow tax free[2] over a long duration

Retirement Planning:

- QOF strategies focused on development followed by a stabilized holding period generally have target returns profiles that include tax-advantaged growth and income[3]
- Provides an opportunity for an investor to sell an appreciated asset in a taxable account and invest the capital gain in a strategy that may provide tax-advantaged income and tax-free growth[2]

Sale of Real Estate:

- QOF investment only requires capital gains from property sales versus section 1031 exchanges, which generally require re-investment of the entire sales proceeds
- Capital gains, including those attributed to accumulated depreciation classified as unrecaptured 1250 gains, can be invested in a QOF
- Capital gains generated from the sale of a primary residence are eligible for QOF investment as are business and investment property

REMINDERS:

Netting Losses to Determine Gains: An investor does not need to net losses when determining capital gains eligible to invest in a QOF.

Investing Across Calendar Years: A QOF investment can span across calendar years as long as it is made within a compliant timeline.

This information does not constitute as tax advice. Certain expectations may apply. Investors should consult with their own tax advisors to determine their individual benefits in a QOF investment.

3. Provided there is a gain in the QOF investment and is held for at least 10 years. There is no guarantee of a positive gain in any QOF investment.
4. There are no guarantees the development properties in a QOF will be completed, stabilized, and generate any income.

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 Rate[4]	5.00%
• Non-QOF Private Placement Investment (IRR)[5]	9.00%
• QOF (IRR)[5]	9.00%

	Non-QOF Private Placement Investment	QOF Investment
Investment Year	**2023**	**2023**
Capital Gain Reinvested	$ 1,000,000	$ 1,000,000
Capital Gain Taxes Payable in 2027	$ (288,000)	—
End of Deferral Period	**2026**	**2026**
Capital Gain Taxes Payable	—	$ (288,000)
End of 10-Year Investment Period	**2033**	**2033**
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)	$ (288,000)
Net After Tax Proceeds	$ 1,685,563	$ 2,079,364
Net After-Tax Cash Benefit of QOF Investment		**$ 393,801**
Relative Increase in Distributable After-Tax Cash		***23.36%***
Net After-Tax IRR Benefit of QOF Investment[6]		**2.49%**

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. The illustration assumes that each investment earns a pre-tax annually-compounded rate of return of 9%, net of all fees and expenses, and that any required taxes due in 2023 or 2026 is paid with additional capital from the hypothetical investor. QOZ investments entail various risks and limitations that investors should consider carefully before investing. Additional information regarding the calculations, risks and limitations related to this illustration will be provided promptly upon request.

5. Illustration assumes 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.
6. Represents the pre-tax internal rate of return of the investment over a 10 year holding period. If the QOF is held for less than 10 years, the benefits could be materially less than depicted.
7. Represents the difference between the after-tax internal rate of return of the Non-QOF Private Placement Investment and 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 Net After-Tax IRR Benefit of the QOF Investment drops from 2.49% to 1.71% with an after-tax difference of $227,764 between the two investments.
   – If each were to achieve a 3% IRR, the resulting Net After-Tax IRR Benefit of the QOF Investment drops to 0.81% with an after-tax difference of $99,048.

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

Griffin Capital Company
266 Kansas Street
El Segundo, CA 90245

424.367.4200
www.griffincapital.com

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THIS IS NEITHER AN OFFER TO SELL NOR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES. AN OFFERING IS MADE ONLY BY A PRIVATE PLACEMENT MEMORANDUM. THIS LITERATURE MUST BE READ IN CONJUNCTION WITH A PRIVATE PLACEMENT MEMORANDUM IN ORDER TO UNDERSTAND FULLY ALL OF THE IMPLICATIONS AND RISKS OF SECURITIES TO WHICH IT RELATES. A COPY OF A PRIVATE PLACEMENT MEMORANDUM MUST BE MADE AVAILABLE TO YOU IN CONNECTION WITH AN OFFERING. THIS MATERIAL DOES NOT CONSTITUTE TAX ADVICE TO ANY PERSON. A PERSON MUST CONSULT WITH HIS OR HER OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES TO THEM OF ACQUIRING AND OWNING AN INVESTMENT IN MULTIFAMILY PROPERTIES.

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.
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