Welcome to Connect Classroom's OPPORTUNITY ZONES: COMMERCIAL REAL ESTATE INVESTING AND ENVIRONMENTAL SITE ASSESSMENTS!

Take this course to satisfy a 3-hour credit for your continuing education. In this introductory course to Opportunity Zones and Environmental Site Assessments, brokers and appraisers can learn more about opportunity zones investments. Throughout the course, explore the rules and regulations for Qualified Opportunity Funds (QOFs) and Opportunity Zones (QOZs). From your role as a broker or appraiser, you will hear from industry experts on what these investment opportunities are, how to invest, and when. Once you understand these concepts, you will be in a better position to assist your clients to make optimal real estate decisions. Additionally, this course covers the due diligence an investor ought to do before putting money into an opportunity zone. Specifically, a smart investor should have environmental site assessments performed. There are multiple types of environmental site assessments, so it is necessary for brokers and appraisers to understand what they are and when they should be performed. Through this course not only brush up on your knowledge of opportunity zones and environmental assessments but have the foreknowledge to effectively guide your clients.

Throughout the course, Connect Classroom has created course content, which encourages ongoing conversations in commercial real estate. Enjoy learning more about topics relevant to your work.

CE Credit: 3 hour
Estimated time to complete course: 3 hours

Disclaimer Statement

This course is approved for continuing education credit by the Department of Real Estate. However, this approval does not constitute an endorsement of the views or opinions which are expressed by the course sponsor, instructors, authors, or lecturers.

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COURSE LEARNING OBJECTIVES

At the end of the course, learners will be able to:

- Define opportunity zones and environmental site assessments
- Compare and contrast Phase I and Phase II environmental site assessments
- Distinguish optimal moments to invest in opportunity zones and performing environmental site assessments

- Articulate the purpose and use of Opportunity Zone Funds
- Recognize the rules and regulations which dictate Opportunity Zone investments

COURSE INTRODUCTION

Opportunity Zones have been a hot-button topic in the real estate investment world for the past several months. The action has heated up even more since October 2018, when the U.S. Treasury Department provided some clarity on the rules by which Opportunity Zone investments can be made – one of which extracted a big sigh of relief among potential investors and developers. "Other than interest rates, I can't think of another topic I've been more frequently asked about," said Darin Mellott, CBRE's Director of Research-Americas.

These opportunities zones are great real estate investments, but they require the investor and all parties to be aware of specific rules and regulations related to opportunity zones. Part of that due diligence includes having environmental site assessments performed based on the type of property. There are multiple types of environmental site assessments, so it's necessary for brokers and appraisers to understand what they are and when they should be performed. Through this course not only brush up on your knowledge of opportunity zones and environmental assessments but have the foreknowledge to effectively guide your clients.

MODULES

MODULE 1: WHAT ARE OPPORTUNITY ZONES?

Introduction

Est. Time– 1:45

The concept of Opportunity Zones was hatched in early 2017 by Senators Tim Scott (R-SC) and Cory Booker (D-NJ) as a way to propel economic development in what the Internal Revenue Service calls "distressed areas." Congress approved the legislation as part of the tax-reform bill in December 2018. That was appropriate, since the investments in Opportunity Zones are "really tax-driven," said Matt Ertman, a partner with the Allen Matkins law firm, which is working with several clients on Opportunity Zone issues.

Opportunity Zone investments are primarily a way for investors to defer capital gains taxes for a period of time.

Lesson 1: Definition

The investor takes the proceeds from the sale of a property or security and re-invests them in a Qualified Opportunity Fund (QOF), which anyone can establish – investor, developer, etc. – though investors have started a smaller share of the funds than other groups The fund then finances the development or redevelopment of a property or properties within one or more Qualified Opportunity Zones (QOZ). The fund can be of any size, as long as the proper paperwork is fled by the tax deadline, according to a CNBC article.

Lesson 2: History

Est. Time– 2:17

In 1948, the United States launched the Marshall Plan, with the goal of providing $13 billion of capital and assistance for rebuilding Europe following the destruction of World War II. Close to 70 years later, the Tax Cuts and Jobs Act introduced another rebuilding effort, that of the Opportunity Zone program.

Lesson 3: Financial Benefits

Est. Time– 3:32

- An overview of the process for investing in QOZ's
- Even though Opportunity Zones' designations are slated to expire at the end of 2028, investors can keep the investment with full tax breaks through 2047.
- On April 17, 2019 the U.S. Department of the Treasury issued its second round of guidance for the Opportunity Zones program. The latest information helped clarify some issues connected with the program.
- One important clarified issue focused on a Qualified Opportunity Fund's asset sale while another clarification involved tax benefits for refinancing proceeds and secondary market purchase.

Lesson 4: Where are Opportunity Zones?

Est. Time– 1:41

Qualified Opportunity Zones – recommended by the governors of each state and certified by the federal government – **are mostly in urban areas, though about one-quarter are in rural locations**. They are available in all 50 states, the District of Columbia, Puerto Rico and other U.S. territories.

MODULE 1: QUIZ- 5 minute

MODULE 2: WHAT ARE QUALITY OPPORTUNITY FUNDS?

Introduction

Est. Time– :33

Reports and news articles on Qualified Opportunity Funds have focused on tangible investments like development and/or renovations of commercial real estate. However, little has been discussed about the QOF sub-fund. In this module, explore how a Qualified Opportunity Fund works and the role of sub-funds in working with Opportunity Zone investments. A QOF might choose to invest in a sub-fund which, in turn, funnels money into Qualified Opportunity Zone (QOZ) property. There are several ways to protect yourself when investing in QOFs and sub-funds. Due diligence is required for any investment; this is especially the case for QOF and sub-fund investments. QOFs and sub-funds must pass an asset test every six months. Additionally, QOZ properties in which a QOF/sub-fund invests are required to be "substantially improved" within 30 months.

Lesson 1: Similarities to Sub Funds

Est. Time– :53

Qualified Opportunity Funds (QOF) and sub-funds are subject to specific guidelines. However, some requirements for QOFs and sub-funds differ. A QOF might choose to invest in a sub-fund which, in turn, funnels money into Qualified Opportunity Zone (QOZ) property.

Lesson 2: Tax Benefits and Guidelines

Est. Time– 1:46

If it sells interest from a sub-fund or property, the QOF is allowed a "reasonable period" to reinvest the gain. However, owners will pay taxes on that gain, unless it is re-invested in the same or different fund or used in a 1031 exchange. A QOF must hold 90% of its gross assets in QOZ property or sub-fund interests. The sub-fund in which that QOF invests only requires 70% its tangible assets be held in QOZ property.

Lesson 3: Due Diligence

Est. Time– :56

Due diligence is required for any investment; this is especially the case for QOF and sub-fund investments. Complicating the issue is that the Opportunity Zone program is still so new.

MODULE 2: QUIZ- 4 minutes (3 questions)

MODULE 3: COMMUNITY INVOLVEMENT AND OPPORTUNITY ZONES

Est. Time- 2:32

Capital that is funneled into Qualified Opportunity Funds can also provide ample opportunity for cultivating human capital for redeveloping inner-city and lower-income neighborhoods. Bringing talented minorities into commercial real estate deals can help boost understanding of local markets and business practices. Gentrification is a concern when pouring billions of capital gains into lower-income and economically disadvantaged areas.

MODULE 3: QUIZ- 1 minute

MODULE 4: ENVIRONMENTAL CONCERNS AND OPPORTUNITY ZONES

Introduction

Est. Time-:36

Once you have targeted some qualified Opportunity Zones for real estate development, your first objective is to evaluate how and if that parcel can accommodate your business objectives and potential building use. The U.S. Environmental Protection Agency recently targeted 149 communities to receive $64.6 million in funding for brownfield cleanup, almost three-fourths of which were Qualified Opportunity Zones.

Lesson 1: Choosing Sites for Optimal Business Objectives

Est. Time-:52

Once you have targeted some qualified Opportunity Zones for real estate development, your first objective is to evaluate how and if that parcel can accommodate your business objectives and potential building use. You must consider whether the location is optimal, if the site will require structural modifications, and whether the development is geared towards short-or long-term gains.

Lesson 2: Manage Environmental and Physical Building Risk

Est. Time-1:43

Be aware of the potential for environmental contamination, especially if your targeted property involves industrial, brownfield or long-abandoned assets. Indeed, the U.S. Environmental Protection Agency recently targeted 149 communities to receive $64.6 million in funding for brownfield cleanup, almost three-fourths of which were Qualified Opportunity Zones. To determine the extent of these contamination risks and liabilities, you will need to invest in an environmental assessment by an experienced consultant.

Lesson 3: Manage Project Completion and Budget

Est. Time-1:22

Whether you choose to pursue a ground-up development Opportunity Zone or rehabilitate an existing asset, your Opportunity Zone project will involve some form of construction services. If not managed properly, rising costs of construction and a persistent labor shortage can drain the profit from even simple renovation projects and increase the likelihood of contractor failure or a default.

MODULE 4: QUIZ- 4 minute

MODULE 5: ENVIRONMENTAL CONSULTANTS
Est. Time: 2:10
What should a real estate investor consider when choosing an environmental consultant?

Video Link: CE_Phase 1_Video 8

Joseph Derhake outlines what an investor should look for when choosing an environmental consultant. Several environmental consulting firms specialize in other things but will do an ESA if asked. ESAs are often relied upon by multiple parties. There is a benefit to choosing a firm that is credible with a number of different stakeholders.

MODULE 5: QUIZ - 1 minute

MODULE 6: BEYOND THE BIG 4: DIALED IN DUE DILIGENCE FOR CRE ACQUISITIONS
Est. Time: 2:40
When considering pre-acquisition property due diligence, many savvy investors request the "Big Four": Phase I Environmental Site Assessment (ESA), Property Condition Assessment (PCA), ALTA Survey, and Zoning Compliance Report. However, multiple complimentary services are available to help an investor, property owner and/or lender assess potential risk.

MODULE 6: QUIZ - 1 minute

MODULE 7: PHASE 1 ENVIRONMENTAL SITE ASSESSMENT

Lesson 1: Definition
A Phase I Environmental Site Assessment involves a careful review of all government, historical, and any environmental or other documentation related to the property in order to determine whether or not there are any contaminations to the property. This assessment should be performed by a professional environmental agent to ensure a quality review.

Lesson 2: Phase I 101

Est. Time: 3 minutes and 53 seconds

A Phase I Environmental Site Assessment, commonly referred to as an ESA, or Phase I ESA, is completed to research the current and historical uses of a property as part of a commercial real estate transaction. The intent of the report is to assess if current or historical property uses have impacted the soil or groundwater beneath the property and could pose a threat to the environment and/or human health. If these issues are found, it presents a potential liability for the lender and/or owner, as well as affecting the value of the property. A Phase I ESA completed prior to the closure of a real estate transaction can be used to satisfy the requirements of CERCLA's (Comprehensive Environmental Response, Compensation and Liability Act) innocent landowner defense under All Appropriate Inquiries (AAI)

Lesson 3: When to Perform one?
Video Link: CE_Phase 1_Video 1
Est. Time: 4 minutes and 48 seconds

Holly Neber, CEO, AEI Consultants outlines a phase 1 assessment and when one should be performed. Joseph Derhake and Stephanie Trueb also give their input. The life story of a property is made up of three components – Historical research, current site conditions and regulatory status check on the property. Are there environmental concerns that might affect the value of the property, represent a liability or represent a health risk to occupants? Perspective purchasers, owners and perspective lenders are the three main parties that would order a Phase I ESA.

Lesson 4: When does the need to perform one arise?
Video Link: CE_Phase 1_Video 2
Est. Time: 3:36

Holly Neber, Joseph Derhake and Stephanie Trueb outline how far in advance a Phase I ESA should be initiated. Buyers and lenders typically have a standard due diligence period within which a Phase I ESA should be completed. Phase I ESA can be obtained at any time, however users of these reports should be aware that certain elements will need to be updated. This is because conditions can change. A Phase I ESA typically takes anywhere from 2-4 weeks to complete depending on the complexity of the project or property as well as the availability of records.

Lesson 5: Phase 1 Assessment Legalities
Video Link: CE_Phase 1_Video 3
Est. Time: 3:27

Holly Neber, Joseph Derhake and Stephanie Trueb discuss legal and regulatory requirements surrounding Phase I assessments. In order to qualify as an "innocent landowner" under superfund law it is required to obtain a Phase I assessment. Many clients are obtaining Phase I assessments simply as a matter of internal risk management and as an industry best practice. Typically, with a Phase I ESA you are not identifying an immediate health risk to the community so there are no reporting requirements.

Lesson 6: Recommendations for Phase I
Video Link: CE_Phase 1_Video 4
Est.Time: 4:04

Holly Neber gives her recommendations for buyers and landowners ordering Phase I ESAs. Phase I ESAs are done for a particular user at a particular time. Using older Phase I reports from a previous buyer or landowner is not ideal. If using an older report, it is recommended to get reliance on that report from the original reporting consultant. In the case of a redevelopment, it is recommended to disclose plans (What type of disturbance to the site? Will there be a basement?) for the site to the consultant. If there is a concern with the property, your consultant should explain it to you and you should be able to understand.

MODULE 7: QUIZ - 5 minutes

MODULE 8: PHASE II ENVIRONMENTAL SITE ASSESSMENT

Lesson 1: Definition

A Phase II Environmental Assessment occurs if a Phase I Assessment reveals the possibility of contamination on the property. To determine the extent of the contamination, soil and other samples are taken and subjected to specific laboratory tests.

Lesson 2: Phase II 101

Est. Time: 1:53

When a Phase I Environmental Site Assessment (ESA) identifies a recognized environmental condition (REC) or the potential for impacts to the subsurface at a site, most clients request to evaluate the potential impacts by performing Phase II Environmental Testing. The presence of a REC or an environmentally-impacted property can greatly reduce its value. Stakeholders want to reduce liability and future cleanup expenses on their investment by conducting a Phase II ESA, in which a subsurface investigation tests soil, soil gas and/or groundwater to identify sources of environmental impacts.

Lesson 3: When to Perform One
Video Link: CE_Phase 1_Video 5
Est. Time: 4:28

Holly Neber, Joseph Derhake and Stephanie Trueb outline the circumstances that may lead to a Phase II assessment. A Phase II would be recommended when a Phase I assessment identifies a concern that warrants further evaluation. In a Phase II actual soil samples and water materials are collected. Typical red flag uses include: Dry cleaners, gas stations, auto repair facilities and industrial uses like printing and manufacturing.

Lesson 4: Phase II Assessments and Brownfield Sites
Video Link: CE_Phase 1_Video 6
Est. Time: 2:53

Holly Neber, Joseph Derhake and Stephanie Trueb discuss brownfield sites and the likelihood of Phase II ESAs needing to be completed there. Brownfield sites are more likely to have long and complex industrial histories or be situated in areas with those type of histories. In this situation, a Phase II is more than likely warranted. As real estate markets get hot, developers are going back and dealing with properties that have issues like solvents in the soil because it is worth it.

Lesson 5: Phase II Challenges
Video Link: CE_Phase 1_Video 7
Est. Time: 1:01

Stephanie Trueb discusses the challenges that arise during a Phase II assessment. A lot of lenders don't want the sign the engagement for a Phase II because there is liability involved with going out to the property and drilling. More often over the past several years, lenders are requiring borrowers to engage consulting firms for Phase II assessments.

MODULE 8: QUIZ - 4 minutes

MODULE 9: OPPORTUNITY ZONES MYTHS AND QUICK FACTS

Lesson 1: Misunderstandings

Est. Time: 2:06

Even as billions pour into Opportunity Zone funds, misconceptions persist on what exactly the Opportunity Zone program entails. “It is a great program that should pull capital into under-invested areas,” said Darryl Jacobs, co-founder of law firm Ginsberg Jacobs in Chicago. “But to get the most out of the program, investors must do their due diligence.

“Deals still must pencil out,” he added. “Investors also need to make sure they understand the program’s rules, or they may fail to get the hoped-for tax deferrals or breaks or, even worse, face penalties.”

Jacobs cited—and corrected—five common misunderstandings about the Opportunity Zone program:

- All capital gains qualify. The gains must arise from a sale between Dec. 22, 2017 and Dec. 31, 2026, and must be invested in a Qualified Opportunity Fund (QOF) within 180 days of the gain recognition date.

Furthermore, “if you own a property in the Opportunity Zone, you can sell it to anyone, but not all buyers will be eligible for the tax advantages,” said Jacobs.

- Capital gains can be deployed at any time before 2027. In fact, a QOF must deploy 90% of its assets into eligible property within six months of the fund’s designation or Dec. 31 of the year in which the fund is formed, whichever comes first.

- All money in a QOF has to be invested in the Opportunity Zone. In fact, as little as 63% of the fund can be invested in qualifying assets, depending on how the fund is structured. That’s under the “70-30 rule” included in IRS guidelines issued last October.

- Any existing building in an Opportunity Zone qualifies. Properties must be newly- constructed or “significantly rehabbed” within 31 months. The property may be commercial or residential, but can’t be a “sin property,” such as a liquor store or massage parlor.

- Investors pay no taxes on capital gains after 10 years. Assuming the investor makes an investment in a QOF prior to Dec. 31, 2019, he or she is allowed to defer paying taxes on the original capital gain—i.e. the money invested into the QOF—until divestiture or Dec. 31, 2026, whichever occurs earlier. However, since the original gains are taxed no later than Dec. 31, 2026, an investor needs to invest gains no later than Dec. 31, 2019, to get the maximum tax benefit.

“The longer an investment is held, the more tax benefits the investor reaps,” said Jacobs. “And if they’re willing to commit a decade or more to a particular project, they are rewarded for the risk they take in the form of tax-free gains—but only if that project is successful.”

Lesson 2: ABCs of Opportunity Zones

Est. Time: 3:12

What is a Qualified Opportunity Zone? In 2018, state officials designated areas under the poverty level, that required gentrification. Congress evaluated these selections, approving approximately 8,700 zone areas throughout the country.

What is a Qualified Opportunity Fund? A QOF is a corporation or partnership that invests in a QOZ and can include LLCs taxed as partnerships.

What gain qualifies? Any gain taxed as a capital gain generated from a sale with an unrelated party qualifies. If you invest the equivalent amount of any capital gain in a QOF, the investment will qualify. Keep in mind that if you invest only part of your gain, then that is the amount that will qualify for the benefits.

Who can elect to invest gains in a QOF? Any individual or entity can elect to defer the gain and invest it into a QOF. In the case of an S-corporation or partnership (including LLCs taxed as partnerships), the entity can elect to defer the gain, or can pass the gain out to its partners or shareholders, which then can elect to defer their portion of the gain.

When do I need to make the QOF investment? You have 180 days from the time of the gain in which to invest in a QOF; this includes weekends and holidays. During the 180 days, you can do anything with the money. Unlike a 1031 exchange, the money does not have to go to an intermediary. If the gain is flowing to a partner or a shareholder from a partnership or corporation, the individual has 180 days from the end of the entity's tax year in which to invest in a QOF.

How does a corporation or partnership become a QOF? The entity must add a Form 8996 to the tax return when filing. Yes, it is that simple.

How does one elect to defer the gain? The individual or entity files a Form 8949 with an income tax return for the year in which it elects to defer the gain.

What does a QOF do with the money? The QOF must invest the gain money, or allocate 90% of it, into a QOZ project within 180 days from the date it receives the funds.

What can a QOF invest in? A QOF can invest in property to be developed, stock in a business or partnership interest in a business or development, as long as the investment is in a QOZ.

What is a QOZ-qualified business? At least 50% of that business' gross income must be derived from the active conduct in the QOZ. Additionally, substantially all business-tangible property must be in the QOZ. Less than 35% of its property — such as stocks — can be in non-qualified property.

What businesses do not qualify? "Sin businesses," such as a country club, golf course, massage parlor, suntan facility, gambling facility, hot tub facility, racetrack or any business that its principal business is the sale of alcoholic beverages off premises do not qualify.

Will I still pay tax on the gain if I invest in a QOF? Yes. Tax on the capital gain deferred will be paid in 2026, regardless of when the gain was recognized. If you hold the QOF investment for five years by 2026, you will pay tax on 90% of the gain. If, by 2026, you've held the investment for seven years, you will pay 85% of the gain. The gain will be based on the original classification.

Can I invest other money in a QOF and get the benefits of the program? No. Only deferred capital gains qualify for the benefits.

What are other benefits? The program's best benefit is that, if you hold your QOF investment for at least 10 years then sell it, you can elect to step your basis in the QOF investment up to fair market value. This means you would pay no tax on the gain from the QOF investment.

MODULE 9: QUIZ - 2 minutes

FINAL EXAM DIRECTIONS

Please complete the following exam to receive full continuing education credit. You will be able to take the exam twice and must have a 70% score to pass.
Once you have successfully passed the course exam, you will be directed through the process to receive your certificate.

Before we take the final exam, let's check that we have all of your information correctly logged on file -- this is important as it'll be used on your certificate! -- Here's what we have on file for you:

First Name:

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If any of this information is missing or incorrect - STOP NOW! - and update it first in your My Account Page.

Verify that your name matches the name below. Enter your name and today's date, then click "continue" to begin.

Thank you for completing the Opportunity Zones: Commercial Real Estate Investing and Environmental Site Assessments Course!

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10 questions, 1 minute each question, 1 minutes total = 10 minutes to complete

Prior to taking the examination, please fill out our identification confirmation form and enter your DRIVERS LICENSE

To confirm your identity please type in your state-issued drivers license or government-issued identification.

Verify that your name matches the name below. Enter your name and today's date, then click Start Exam to begin. While taking this exam, please ensure that you are in a private room to avoid distraction with a stable wi-fi connection. Once you begin the exam you will be unable to pause it or restart it. If you do not pass within 1 attempt, the course will need to be retaken.

I, NAME, certify and ensure that by written statement signed under penalty of perjury that the participant enrolled is the person completing the course."

Type your name and the date to certify your identity