



NOVOGRADAC

Journal of Tax Credits™

Insights On Affordable Housing, Community Development, Historic Preservation, Renewable Energy and Opportunity Zones
July 2020 ♦ Volume XI ♦ Issue VII

Published by Novogradac

A Brave New World: COVID-19 Implications for Opportunity Zones

SEAN RAFT, URBAN CATALYST

With its tentacles outstretched, the widespread economic impact of COVID-19 is undeniable. In light of the global pandemic, questions have been raised about the long-term implications for real estate investment, particularly those taking place in opportunity zones (OZs).

Although the future is hard to predict, forecasts are being made. In the end, there will always be some potential risks that should be considered carefully, but we believe the cost of lost opportunity should also be carefully weighed.

As a partner at Urban Catalyst, an opportunity zone fund focused on ground-up development in the heart of Silicon Valley in downtown San Jose, and from my prior experience as a portfolio manager of a real estate trust with more than \$100 million in assets, I've seen my share of the market ups and downs. What I've found is that the implications of COVID-19 notwithstanding, there will always be deals out there. The real test is, and has always been, knowing where to find the good ones and being brave enough to act on them.

For Urban Catalyst, the critical analysis is ascertaining the impact of the pandemic on our long-term real estate positions. Predicting the future is a difficult task, no matter how clear the crystal ball. The following is offered on the heels of that disclaimer.

While our perspective at Urban Catalyst may be unique to us, it may also prove a useful reference point to others during an otherwise dark and uncertain time.

At the time COVID-19 hit, we had acquired the land and started development for the handful of projects in our portfolio. Initially, it is worth noting that we had designed several contingency plans, at the inception of our business, to calculate the risks associated with potential economic downturns. When we

continued on page 2



FOUNTAIN ALLEY BUILDING



THE MARK



DELMAS SENIOR LIVING



THE ICON



KEYSTONE



MADERA @ GOOGLE VILLAGE



PASEO

continued from page 1

created our models, we could not have guessed that the genesis for the downturn would be a global pandemic, but predicting the source of the downturn was never as important as building the model to deploy in response.

More specifically, one of our models projected a recession to occur during the targeted 10-year life of our fund. The timing and effect of the model was surprising. Historically speaking, Silicon Valley land values, as opposed to the value of cash-flowing real estate assets, seem to remain relatively stable during periods of recession. In fact, this is exactly what the partners at Urban Catalyst noticed with their projects during the 2008 recession. Given this inherent resistance to recession, and since we had acquired our land at relatively low prices already, we were not too concerned about the financial risks associated with actually owning and holding the dirt.

Rather, the surprise came when we looked at the cost of building the improvements. According to our model, if the recession were to hit before construction, something significant would happen. Looking at our team’s prior projects in 2008, we noticed that construction costs dropped an average of 20 percent during the recession. Assuming \$500 million in hard project costs in our current portfolio, the discount to our projects could potentially produce a whopping \$100 million in cost savings. Even half of that figure could amount to an incredible \$50 million in savings.

On top of that, Urban Catalyst’s projects are slated to break ground in the middle of 2021, with approximate rolling completion dates ranging from 2023 through 2026. For us, this means that our projects are not slated for completion until several months or even years after the COVID vaccine is anticipated to have been introduced into the population.

Meanwhile, our development team has not slowed. In this regard, it is important to credit the city of San Jose for the fantastic job it has done during this time.

Image: Courtesy of Urban Catalyst
Urban Catalyst’s projects in the Silicon Valley are slated to break ground in the middle of 2021, with approximate rolling completion dates ranging from 2023 through 2026.

continued on page 3

continued from page 2

Rather than shutter its offices, the city remained true to its Silicon Valley roots and embraced technology to keep its doors open. In fact, in our opinion, the effort San Jose has set forth has been nothing short of impressive. In the words of Paul Ring, our head of development, the city of San Jose has “exceeded every expectation” and helped to keep us on track and on schedule. For that, we are very thankful.

It is important to be clear that we take no pleasure whatsoever in the fallout the world has been suffering since the outbreak of the global pandemic. The tragedies that individuals and families are experiencing are horrific and we obviously wish none of it had ever happened. Nevertheless, we must adapt to our changing environment. That’s exactly what we are doing. And for us, it turns out the timing looks pretty good.

While some other development companies here locally have closed their doors for now, we continue to charge ahead. For a multitude of reasons, we remain steadfast in our belief that the demand for our products will be as just strong after COVID as it was before. Thanks to our

head start, we look forward to being among the first to deliver new products to the market in the years ahead.

Sean Raft is chief administrative officer and partner at Urban Catalyst, an opportunity zone fund based in Silicon Valley.

Disclaimer

The information contained in this article is provided for informational purposes only and is not intended to be, nor should it be construed or used as financial, legal, tax or investment advice, nor should this information be used or considered as an offer to sell or a solicitation of any offer to buy any interest in Urban Catalyst Opportunity Fund I LLC (the Fund), an investment sponsored by Urban Catalyst LLC (the “Sponsor”). The offer and sale of interests in the Fund is being made only by delivery of the Fund’s private placement memorandum, certain organizational documents, subscription agreement, and certain other information to be made available to investors by the Sponsor (the “Operative Documents”). You may only invest in the Fund if you are an accredited investor as defined in Rule 501 of Regulation D. Investing in the Fund will involve

significant risks, including possible loss of your entire investment. Prospective investors should make their own investigations and evaluations of the information contained in this [article] and the other Operative Documents. Each prospective investor should consult its own attorneys, business advisors and tax advisors as to legal, business, tax and related matters concerning the information contained in this [article] and the Operative Documents.



Image: Courtesy of Urban Catalyst

Urban Catalyst is an opportunity zones fund focused on ground-up development in the heart of Silicon Valley in downtown San Jose, Calif.

continued on page 4

continued from page 3

This article does not take into account the particular investment objectives or financial circumstances of any specific person who may receive it. An investment in the Fund is not suitable for all investors. No representation is made that the Fund will, or is likely to, achieve its objectives or that any investor will avoid incurring substantial losses. Past performance is no guarantee of future results. ❖

This article first appeared in the July 2020 issue of the Novogradac Journal of Tax Credits.

© Novogradac 2020 - All Rights Reserved

Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.novoco.com.



EDITORIAL BOARD

PUBLISHER

Michael J. Novogradac, CPA

EDITORIAL DIRECTOR

Alex Ruiz

TECHNICAL EDITORS

Thomas Boccia, CPA
James R. Kroger, CPA
Diana Letsinger, CPA

Matt Meeker, CPA
John Sciarretti, CPA
Stacey Stewart, CPA

COPY

SENIOR EDITOR

Brad Stanhope

SENIOR MARKETING MANAGER

Teresa Garcia

COPY EDITOR

Mark O'Meara

STAFF WRITER

Caroline Gallegos

CONTRIBUTING WRITERS

Thomas Boccia
Brad Elphick
Stephanie Naquin
Karen Przepyszny
Albert Rex

Buzz Roberts
Kyle Ruane
John Tess
Rob Wasserman

ART

CREATIVE DIRECTOR

Alexandra Louie

CARTOGRAPHER

David R. Grubman

GRAPHIC DESIGNER

Laura Fischer

CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS

Alex Ruiz
alex.ruiz@novoco.com
925.949.4243

ADVERTISING INQUIRIES

Christianna Cohen
christianna.cohen@novoco.com
925.949.4216

ALL MATERIAL IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS PROFESSIONAL ADVICE OFFERED BY NOVOGRADAC OR BY ANY CONTRIBUTORS TO THIS PUBLICATION.

ADVICE AND INTERPRETATION REGARDING THE LOW-INCOME HOUSING TAX CREDIT OR ANY OTHER MATERIAL COVERED IN THIS PUBLICATION CAN ONLY BE OBTAINED FROM YOUR TAX AND/OR LEGAL ADVISOR.

ADVISORY BOARD

OPPORTUNITY ZONES

Glenn A. Graff
Steven F. Mount
Mary Tingerthal

APPLEGATE & THORNE-THOMSEN
 SQUIRE PATTON BOGGS
 NATIONAL HOUSING TRUST BOARD

LOW-INCOME HOUSING TAX CREDITS

Bud Clarke
Tom Dixon
Rick Edson
Richard Gerwitz
Alisa Kennedy
Rochelle Lento
John Lisella
Philip Melton
Thomas Morton
Rob Wasserman

BOSTON FINANCIAL INVESTMENT MANAGEMENT
 BOSTON CAPITAL
 NFP AFFORDABLE HOUSING CORP.
 CITI COMMUNITY CAPITAL
 DENTONS
 DYKEMA GOSSETT PLLC
 U.S. BANCORP COMMUNITY DEV. CORP.
 BELLWETHER ENTERPRISE
 PILLSBURY WINTHROP SHAW PITTMAN LLP
 U.S. BANCORP COMMUNITY DEV. CORP.

PROPERTY COMPLIANCE

Michael Kotin
Kerry Menchin
Gianna Richards

KAY KAY REALTY
 CONAM MANAGEMENT CORPORATION
 SOLARI ENTERPRISES INC.

HOUSING AND URBAN DEVELOPMENT

Flynann Janisse
Ray Landry
Denise Muha
Monica Sussman
Victor Cirilo

RAINBOW HOUSING
 DAVIS-PENN MORTGAGE CO.
 NATIONAL LEASED HOUSING ASSOCIATION
 NIXON PEABODY LLP
 NEWARK HOUSING AUTHORITY

NEW MARKETS TAX CREDITS

Frank Altman
Merrill Hoopengardner
Scott Lindquist
Tracey Gunn Lowell
Ruth Sparrow
Elaine DiPietro

COMMUNITY REINVESTMENT FUND
 NATIONAL TRUST COMMUNITY INVESTMENT CORP.
 DENTONS
 U.S. BANCORP COMMUNITY DEV. CORP.
 FUTURES UNLIMITED LAW PC
 BLOOMING VENTURES LLC

HISTORIC TAX CREDITS

Jerry Breed
John Leith-Tetrault
Bill MacRostie
John Tess

MILES & STOCKBRIDGE
 NATIONAL TRUST COMM. INVESTMENT CORP.
 MACROSTIE HISTORIC ADVISORS LLC
 HERITAGE CONSULTING GROUP

RENEWABLE ENERGY TAX CREDITS

Jim Howard
Forrest Milder

DUDLEY VENTURES
 NIXON PEABODY LLP