

QUALIFIED OPPORTUNITY ZONES

**A REFERENCE GUIDE FOR U.S.
COMMERCIAL REAL ESTATE INVESTORS**

CBRE



HOW DO QUALIFIED OPPORTUNITY ZONES IMPACT THE COMMERCIAL REAL ESTATE INDUSTRY?

- Tax benefits that accompany Opportunity Zones (OZ) create a powerful incentive to allocate capital into economically distressed areas and in some cases, allow investors to defer taxes on realized gains and even reduce tax liability.
- If the OZ concept succeeds, its effects could be locally transformative for certain areas.
- More vibrant communities driving improved real estate fundamentals will create new investment opportunities.
- Time is of the essence for investors in order to fully take advantage of the program's tax incentives.
- The US Department of Treasury recently issued additional guidelines, which helped clarify many issues, but not all. More guidance is expected around the end of the year. Even still, market participants can use current guidelines to move forward.

WHY WERE OPPORTUNITY ZONES CREATED?

Opportunity Zones were created as part of the 2017 Tax Cuts and Jobs Act (a.k.a. tax reform). The idea behind these zones is to attract investment capital—specifically, capital gains—into “economically distressed” areas. In return for these investments, investors receive several tax benefits, which vary depending upon the time capital remains invested in a Qualified Opportunity Zone (QOZ).

WHAT IS THE CRITERIA TO BECOME A QUALIFIED OPPORTUNITY ZONE?

Recommendations for areas to be certified as QOZs were made by governors in each state.

25%

25% of census tracts in a state could be designated as “opportunity zones”

20%

Census tract must have at least 20% poverty rate

80%

Median income must not exceed 80% of metro or state level

2028

Designation of opportunity zone remains in effect through the end of 2028

In order to invest in a QOZ, investors must utilize a specific investment vehicle: a Qualified Opportunity Fund (QOF). To qualify for tax deferral benefits, investors must place capital gains into a QOF within 180 days of realizing the gain. Importantly, there is not a limit to the amount of capital gains that can be reinvested through a QOF.

WHAT IS A QUALIFIED OPPORTUNITY ZONE BUSINESS?



- Opportunity fund can invest in an OZ business directly or through subsidiary.
- “Substantially all” tangible business assets must be used in an OZ (70%).
- Most businesses qualify (exceptions include golf courses, country clubs, gambling establishments, etc.).

WHAT IS A QUALIFIED OPPORTUNITY ZONE BUSINESS PROPERTY?

- Tangible property used in trade or business.
- Must be purchased **after 2017**.
- Original use of property must begin with certified OZ entity.
- Alternatively, if a certified entity (OZ fund or co.) “substantially improves.”
- Improvements equal to cost of building acquisition must be made **within 30-month period**.

WHAT ARE THE TAX ADVANTAGES OF A QUALIFIED OPPORTUNITY ZONE?

2026

Investors can defer taxes on capital gains until 2026

180

Capital must be placed in an opportunity fund within 180 days



Unlimited amount of capital gains can be reinvested into an opportunity fund

Beyond the initial 180-day period in which funds must be reinvested, there are other timeframes that investors should take note of to fully benefit from tax advantages offered through the QOZs.

For example, a QOZ investment allows for the reduction of deferred gains from the sale or exchange of prior investments. QOZ investments maintained for at least five years by the end of 2026 will qualify for a 10% reduction of deferred capital gains tax liability (for the original capital gain). If the gain has been invested in an opportunity fund for seven years by the end of 2026, the tax liability on the original gain is reduced by 15%. Consequently, in order to take advantage of at least some of these benefits, capital gains must be reinvested by the end of 2021.

2021

must invest by 2021 to take advantage of tax benefits

5 YEAR

Gains invested qualify for 10% reduction in amount of taxed gain

7 YEAR

Gains invested qualify for 15% reduction in amount of taxed gain

Beyond the five- and seven-year periods, gains from investments in QOZs become tax free after an investment period of at least 10 years (this does not include the original gain reinvested in the QOZ and will apply to assets held until 2047). As currently written, should Congress extend the 2026 due date for taxes on original gains to at least 2028, it could be possible to erase tax liability for all gains. However, it is worth emphasizing Congressional action would be required for the 2026 date to be extended.

HOW CAN I INVEST IN A QUALIFIED OPPORTUNITY ZONE?

- 1 [Reach out to a CBRE professional](#) in your local market to locate for sale inventory in Qualified Opportunity Zones.
- 2 Self-certification - To become a Qualified Opportunity Fund, an eligible corporation or partnership self certifies.

To learn more about Opportunity Zones:

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