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# Opportunity Zone Market Starting To Heat Up, But Many Investors Are Still Waiting

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The development team behind the 2.5M SF New Carrollton development closed this week on $21M in opportunity zone funding, the latest in a string of D.C. projects to take advantage of the new federal tax benefit program.

Urban Atlantic received the $21M investment from Bridge Investment Group, which last year launched a $500M opportunity zone fund. The investment, paired with a $46.5M construction loan from TD Bank, will fund the development of a $72M, 282-unit apartment building that is expected to break ground within the next month, Urban Atlantic Managing Director Lois Fried tells *Bisnow*.

The developer is also seeking opportunity zone investment for the construction of the second multifamily building at the 66-acre Walter Reed development, a partnership with Hines and Triden Development. Fried said she sees the program as a potential boon for areas that may not have otherwise attracted investment.

"I certainly think it will help solidify financing for deals that are in the pipeline and bring additional investors that wouldn't have been interested in a location to a location," Fried said. "That is certainly a good thing."

The New Carrollton project is one of at least four D.C. developments to close opportunity zone financing deals in recent months. Several leaders in the opportunity zone space, who will speak June 26 at *Bisnow's* Opportunity Zone Summit in D.C., say activity has begun to heat up following the release of key IRS regulations in April, but the majority of capital is still waiting on the sidelines.

"You've seen a steady increase in the amount of deals actually being done," said Develop founder Steve Glickman, one of the architects of the opportunity zone program. "I still think the market is disproportionately focused on raising capital into funds and cracking the code of how to build large, multi-asset funds. That s where I see a lot of the energy."

EJF Capital last month closed on an opportunity zone investment in D.C.'s Hill East neighborhood. The Arlington-based investment firm, which launched its own $500M opportunity zone fund in September, is partnering on a 262-unit development next to the Stadium-Armory Metro station.

"We're from D.C., so this is a good hometown story," EJF Head of Real Estate Development Asheel Shah said. "We think D.C.'s opportunity zone map is one that really is going to be favorable to the community at large. We are working on additional pipeline opportunities in Metro D.C."

EJF has also closed opportunity zone deals in South Carolina and Oakland. EJF CEO Manny Friedman said the firm has multiple other deals in the works and he expects to make about 10 opportunity zone investments by year-end.

"Opportunity zones are the biggest change to happen in America, in my opinion, since I've been in the business, which is close to 50 years," Friedman said.

The firm made its South Carolina and Oakland investments prior to the April regulation release, but Shah said the release represented a turning point for investment into the program.

"The second set of regulations that came out in mid-April has given everyone a lot more comfort about how they transact in the space, so that was generally I think a big win for all," Shah said.

At least two other opportunity zone deals have closed in D.C. this year. MidCity last month announced it finalized its opportunity zone fund for a 108-unit project at 1400 Montana Ave. NE. The developer is working on an opportunity zone deal for the 1,760-unit RIA project it has planned across the street.

Douglas Development in March closed on a deal with PTM Partners for an opportunity zone investment in its 453-unit, office-to-residential conversion project on Buzzard Point.

"It's a good sign that there have been some big, interesting deals done in D.C.," Glickman said "I think you'll see far more deals happen toward the end of the year as funds are better capitalized."

Somera Road has already invested about $100M through the opportunity zone program across six deals in Louisville, Cleveland, Allentown, Pennsylvania, Middle Falls, New York, and Nashville, where it has closed two deals. Somera Road Managing Principal Ian Ross said it is largely focused on smaller markets, but it does have a deal in the D.C. area he said will likely go under contract soon, though he did not disclose the details.

"D.C. is a great market, and it's a market we are certainly focused on," Ross said.

While Somera Road has been an early mover in the opportunity zone space, Ross said he has not seen a great deal of investment activity from other players in the market.

"There's a lot of talking and a lot of fundraising, but I'm not seeing a lot of dealmaking and real estate investment," Ross said. "I think a lot of players are getting capital ready and it will change."

One investor still waiting to close its first opportunity zone deal is Revolution, a D.C.-based firm led by AOL co-founder Steve Case. Last summer, Revolution brought on Clint Myers and Starling Cousley as partners to lead a new real estate initiative as part of its Rise of the Rest fund, with a focus on investing in opportunity zones.

Myers said the fund has about seven potential deals in the pipeline, largely creative office projects in secondary markets, and it expects to close some of them soon.

"The next six months will be quite active," Myers said. "Given the last [regulation] release, I think the market is pretty much ready to go now and it's just a matter of groups finding the right investments that fit their strategy."

The fund is primarily focused on secondary markets like Nashville, Pittsburgh, Minneapolis, Detroit, Denver and Portland, Myers said, because he said the top-tier markets are already flush with capital.

"We want to make sure we're investing and providing things that others aren't," Myers said. "In D.C. it's less clear we can do that, but I think there are some interesting opportunity zones in D.C. and given that it's in our backyard, I would say that's a market we will be interested in."

While many opportunity zone investors are focused on real estate developments, the program also offers tax benefits for investing in operating businesses located within the designated zones. Arctaris Impact Fund is focused on the operating business side, founder Jonathan Tower said, because the investments can spark job creation and have a meaningful impact on a community.

"It's great to have nice office buildings and multifamily residential in a community, but if people don't have quality jobs to afford to live there, you have communities that are marginalized," Tower said. "We think it's just as important, if not more important, to have good quality jobs relative to having good quality real estate developments."

Arctaris is planning to launch its $500M opportunity zone fund this summer, Tower said. The firm's previous fund, the fourth since its 2009 founding, has made commitments to invest in businesses in Southeast D.C., Hyattsville and Baltimore. Tower said he also plans to look at those areas for investment with its opportunity zone fund.

While some funds have been slower to make opportunity zone investments than others, Glickman said he is optimistic about what he is seeing in the marketplace.

"This is an entire new industry where there are a number of players, and it's just going to take time for people to get a feel of what the market norms are," Glickman said. "If it takes an extra couple of years, you're still talking about a tremendous transformative potential for those places."