

MONTGOMERY COUNTY

REAL ESTATE OFFICE MARKET OVERVIEW

Q4 RECAP

Last quarters' market report reviewed the co-working trend that has grown in popularity in the office market through the offering of quick and affordable space. This quarters' market report will close the year by reviewing another economic trend that has piqued the interest of many investors and businesses throughout the nation, Opportunity Zones.

THE BASICS

Opportunity Zones is a program designed to generate economic development in distressed communities. Opportunity Zones are areas where the average household income is below 80% of the median household income or which have a poverty rate that is higher than 20% based on the census numbers. Areas that meet these criteria are then nominated by Governors and the U.S. Department of Treasury to become Opportunity Zones. Investments are made through specialized investment vehicles called Opportunity Funds that are organized as partnerships or corporations specifically designed for investing in assets within an Opportunity Zone [2].

WHY WERE OPPORTUNITY ZONES CREATED?

Created through the 'Tax Cuts and Jobs Act' in 2017, Opportunity Zones were formed to incentivize investment in underserved communities in the U.S. with substantial tax breaks [5]. Three tax benefits exist for investments made in Opportunity Zones through a qualified fund:

- **Investors can defer the payment of capital gains that are reinvested in an OZ.**
Congressional Research Service: "1. Temporary deferral of capital gains that are reinvested in qualified OZ property: Taxpayers can defer capital gains tax due upon sale or disposition of a (presumably non-OZ) asset if the capital gain portion of that asset is reinvested within 180 days in a QOF.8."
- **See an increase in basis on the original investment placed in an Opportunity Fund after the fund is held for at least five years.**
Congressional Research Service: "2. Step-up in basis for investments held in QOFs: If the investment in the QOF is held by the taxpayer for at least five years, the basis on the original gain is increased by 10% of the original gain. If the OZ asset or investment is held by the taxpayer for at least seven years, the basis on the original gain is increased by an additional 5% of the original gain."
- **Exclusion of tax on the sale of the investment after it has been held for 10 years.**
Congressional Research Service: "3. Permanent exclusion of capital gains tax on qualified OZ investments held for at least 10 years: Investments maintained (a) for at least 10 years and (b) until at least December 31, 2026, will be eligible for permanent exclusion of capital gains tax on any gains from the qualified OZ portion of their investment when sold or disposed" [6].

Recent research done by the Economic Innovation Group shows that 52.3 million Americans live in economically distressed communities and that the U.S. economy is increasingly dependent on a handful of places for growth. With an estimated \$6 trillion in unrealized capital gains available at the end of 2017, **the creation of investment incentives help struggling communities to utilize tax credits, to better the lives of the communities' inhabitants, while broadening the economically successful areas within the country** [1].

OPPORTUNITY ZONES IN MONTGOMERY COUNTY

The state of Maryland has 149 Opportunity Zones, 14 of which are in Montgomery county, and over a dozen in PG county. The Montgomery County Opportunity Zones reside in Germantown, Montgomery Village, Gaithersburg, Rockville, Wheaton, White Oak, Silver Spring, Long Branch and Takoma Park; many of these zones overlap with existing local programs such as Arts & Entertainment Districts, Enterprise Zones, and RISE Zones that can be used in conjunction with opportunity funds, further incentivizing investments in these economically struggling areas.

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"Our plan is to make Maryland's 149 Opportunity Zones the most competitive ones in America," Governor Hogan was quoted at the construction site of a Baltimore Opportunity Zone project that will convert a lumber mill into a commercial and residential hub. Looking forward in 2019, Governor Hogan announced a plan on the third of January for the state to further expand the Opportunity Zone program by offering businesses additional state tax credits, small business loans, and affordable housing incentives, as well as a \$3 million grant program that offers local job training grants to businesses within an OZ [4].

OPPORTUNITY IN THE NEW YEAR

Opportunity Zones are a flexible and innovative solution for catalyzing economic growth in the private sector and offer a unique opportunity for long term investments that will benefit the lives of many within the OZ. If you are on the fence about investing in an Opportunity Zone or are just interested in learning more about them, there are many tools available to investors to understand this novel opportunity.

Maryland Opportunity Zone Resources: <https://dhcd.maryland.gov/Pages/OZ-Conference.aspx>

Montgomery County's Opportunity Zones: <https://www.arcgis.com/apps/MapJournal/>



[Opportunity Zones. (n.d.). Retrieved from: <https://thinkmoco.com/maps/oz/>]

CONTINUE THE CONVERSATION

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- 2 Fragale, R., CPA, MT. (2018, November 1st). "What You Need to Know About the Opportunity Zone Tax Initiative". Retrieved from: <https://www.heffler.com/opportunity-zone-tax-initiative/>
- 3 Hernandez, A. (2019, January 3rd). "Hogan to bolster 'opportunity zones' with state investments". Washington Post. Retrieved from: [Opportunity Zones](#)
- 4 McLeod, E. (2019, January 3rd). Hogan unveils plan to fuel growth in state's Opportunity Zones, 42 of which are in Baltimore. Retrieved from: [Opportunity Zones](#)
- 5 Williams, C. (2018, December 9). "Opportunity Zones? These Resources May Help". Retrieved from: [Resources](#)
- 6 Marples, D and Lowry, S (2018). "Tax Incentives for Opportunity Zones: In Brief", Congressional Research Service, Report R45152. Retrieved from : <https://fas.org/sgp/crs/misc/R45152.pdf>