CANTOR Fitzgerald

SILVERSTEIN PROPERTIES

# The *Opportunity* in Opportunity Zones

**Ed O'Farrell,** managing director of *Real Assets Adviser,* recently sat down with **Jay Frank,** president and COO of Cantor Fitzgerald Asset Management, and **Jeffrey Deitrich,** senior vice president and head of the equity fund management business for Silverstein Properties, to talk about how the Qualified Opportunity Zone Program (QOZ Program) is faring. Following is an excerpt of that conversation.

## CONTRIBUTORS

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**Ed O'Farrell: The QOZ Program has now been around for over five and a half years. Cantor Fitzgerald and Silverstein Properties were early entrants into the space and now have a few billion dollars of OZ development projects in play. Can you speak to how the program has fared?**

**Jay Frank:** The Opportunity Zone Program was launched in December 2017, but it took about two years for the program to gain traction because it took that long for final regulations and guidance to come out. However, over the past three and a half years, it's estimated that a few hundred billion dollars were raised and invested across the industry. If $200 billion to $300 billion has been raised and levered one-to-one, we are looking at $400 billion to $600 billion of real estate that likely would not have been built or businesses started without the QOZ incentives. Most of the investment has focused on buildings, but we also see capital flowing to businesses across the 8,700 approved opportunity zones throughout the United States. In addition to direct investment, these developments create short-term and long-term jobs, retail activity and tax revenues, as well as contribute to economic stability in communities. We think the program has been very successful.

**Are there ways to make it even more successful?**

**Frank:** I think everyone can agree it can be more successful. Billions more could be invested in communities in need. Washington, D.C., on both sides of the aisle, would like to see more investment, which is why there is bipartisan support to extend the program and potentially make it permanent. Currently, the investment period is scheduled to sunset at the end of 2026.

**How did Cantor Fitzgerald and Silverstein Properties come together?**

**Frank:** Cantor has a prolific 1031 real estate exchange business, and so QOZs were a natural complement to a core business line already in place. We wanted a best-in-class development partner that shared our long-term approach to value creation and commitment to improving communities. Our chairman, Howard Lutnick, who's been with Cantor for 40 years now, has known Silverstein Properties and its chairman and founder, Larry Silverstein, for decades and felt they would be the perfect fit for this joint venture. Both firms have long tenures under consistent leadership and a historical legacy through the events of September 11, 2001, and the World Trade Center. Every year, Cantor Fitzgerald and our affiliates, in conjunction with the Cantor Fitzgerald Relief Fund, commemorate our 658 friends and colleagues and 61 Eurobrokers employees who perished by distributing 100 percent of our global revenues on Charity Day to the Cantor Fitzgerald Relief Fund and dozens of charities around the world. Silverstein, who acquired the Twin Towers just six weeks prior to 9/11, has since led the World Trade Center rebuilding effort along with providing ongoing support for the 9/11 Memorial and Museum, Tuesday's Children, Tribute Center and many downtown organizations. While Cantor was rebuilding a firm and helping the families of those lost, Silverstein was rebuilding the World Trade Center and downtown Manhattan. Twenty years later, our companies have come together in a business venture that's about improving communities in need. It's a very American, patriotic rebuilding story, and I don't think there are two better companies to partner up to do it. Silverstein Properties has built many iconic properties, none more famous than the buildings encompassing the World Trade Center and the Freedom Tower.

**How does the firm's experience translate to the types of projects you're focused on with the QOZ Program?**

**Jeffrey Deitrich:** Revitalization is in the DNA of our firm. Cantor has a lot of experience and infrastructure devoted to working with advisers that are putting their capital into the Opportunity Zone Program, while Silverstein has been in the development business for over 50 years. We have built a wide range of assets, including life science buildings, office and retail projects, and thousands of multifamily and hospitality units. We have experience working on extremely large, complicated, long-term development projects across the many different asset classes that you evaluate when you're looking at projects within the Opportunity Zone Program. The professionals on our staff are 25- or 35-year veterans of the design, development and construction industries and have encountered and solved the types of problems common to development projects. We take a long-term view toward community redevelopment, which aligns nicely with the required hold periods for the QOZ Program and corresponding tax benefits.

**Where are you finding opportunities?**

**Frank:** Cantor's family of real estate businesses includes Newmark, one of the pre-eminent real estate brokerage and finance companies in the U.S., and so we get incredible deal flow from that team, in addition to the other brokerage houses that are seeking development capital and know that we're a reliable source of funding for the clients that they represent. Our partnership evaluates projects in all corners of the country. So far, we've invested in Seattle, Las Vegas, Salt Lake City, Tempe (Phoenix), Tampa, Philadelphia, New York Metro and Richmond.

**Are you finding that the cities and local communities are generally supportive of the opportunity zone projects?**

**Deitrich:** They're typically extremely supportive. Philadelphia is a terrific example. The topping-off ceremony of a life science building that we are developing adjacent to UPenn and Drexel University was attended by state senators, the local congressman, the mayor and the council, in addition to many local members of the community excited to see a first-class development improving the neighborhood.

**Frank:** We had a mandate for 35 percent of the contractors who built the building to be minority-owned businesses, which we exceeded. I think over 20 percent of the people in that project were minority apprentices who were getting their first jobs in the construction industry. These are excellent, high-paying jobs that would not be available without the QOZ Program.

**Deitrich:** For these communities, it's not just about the one building that goes up. Our development projects generate ancillary activity — restaurants, retail, entertainment, small businesses and other real estate development. People are moving to these communities. People are going to be shopping and buying their coffee and having lunch and getting their hair cut and picking up their dry cleaning. So, it's not just our projects. They attract other institutional dollars that wouldn't have gone there otherwise. These are place-making developments, which are exactly what the Opportunity Zone Program was intended to do.

**The real estate and economic environments are certainly different today than they were in 2018 when you got into the program. How are you dealing with the current challenges?**

**Deitrich:** We expect our projects will continue to be successful because our investments are based on the underlying economic fundamentals of the local markets they are in — we look for a healthy regulatory regime, strong job growth, and clear demand for the product. We have remained primarily focused on housing and are building over 2,500 multifamily housing units right now, with many of the projects putting up to 25 percent of the units into an affordable housing program. In this climate, where much of our competition from 2018 is on the sidelines, we have been able to negotiate more favorable terms for our investors in shovel-ready projects with attractive risk-adjusted returns, and moderate leverage in the 50 percent to 65 percent range.

**How do you respond to those who claim the program has been used more to benefit wealthy developers and investors than blighted communities?**

**Frank:** There are certainly examples of developments that got completed under QOZ auspices that probably shouldn't have, but those are the exception, not the rule. As Washington looks to tweak and extend the program, those exceptions are being looked at. Improvements that may be implemented include using the most current census data to designate OZ tracts, as well as tightening qualifications to remove some of those areas that probably shouldn't qualify. For example, areas around universities are typically low income because students don't make a lot of money, but they probably aren't the types of areas that need the tax incentive to spur investment. On the other end of the spectrum, the new proposed legislation — if it passes — will add more rural areas. Other improvements could — and should — include transparency mandates and more reporting requirements, allowing for more thorough analysis of the impact of the OZ program on these communities.

**Why haven't more financial advisers and investors embraced the QOZ Program?**

**Frank:** Complexity and novelty. To simplify, the QOZ Program is actually very similar to a Roth IRA or Roth 401(k). At the end of the day, you have after-tax money growing tax free potentially until the end of 2047. The big tax benefit is the Roth-like component. It's the tax-free growth if you hold at least 10 years, and you exit by the end of 2047. That is extremely powerful, and that's what will continue to drive interest in the QOZ program. Hopefully it gets extended because it's good legislation.

**What is the one thing you want investors and advisers to know about QOZs?**

**Frank:** The program is all about sound real estate investments — not the tax-tail wagging the dog. The value of the tax benefit is only as good as how well your underlying assets perform. So, this is about good fundamental real estate projects that you would invest in without the tax benefits, and the tax benefits magnify the return. If you can do well while doing good, it's a win-win.

## CORPORATE OVERVIEW

With more than 12,000 employees, **Cantor Fitzgerald & Co.** is a leading global financial services group at the forefront of financial and technological innovation and has been a proven and resilient leader for 78 years. The investment bank serves more than 5,000 institutional clients around the world. **Cantor Fitzgerald Asset Management** has more than $13 billion in AUM across real assets strategies, mutual funds, separately managed accounts, and exchange-traded funds with over 100 dedicated professionals. In 2022 alone, Cantor Fitzgerald's family of real assets businesses completed approximately $118 billion in real assets–related transactions with expertise across investing, leasing, managing and financing.

**Silverstein Properties** is a privately held, full-service real estate development, investment and management firm. Founded in 1957 by Chairman Larry Silverstein, Silverstein Properties has developed, owned and managed more than 40 million square feet of office, residential, hotel, retail and mixed-use properties. The company currently owns and operates a diversified portfolio of high-quality assets valued at over $10 billion.

**For more information about Cantor Fitzgerald's capabilities, please contact:**
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