

# OPPORTUNITY ZONES

## MEETUP

### INNOVATION HUBS



## GUIDEBOOK

prepared by  
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<https://www.meetup.com/Opportunity-Zones/>

The Opportunity Zones Meetup is sponsored by the following organizations

**DAKIN CAPITAL LLC**



**Karl Dakin provides services in investor profiling, crowd building and capital campaign planning, staging and management.**

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## CASE STUDY

This Guidebook is part of a series of publications developed to assist individuals, communities, businesses and property developers and Opportunity Zone investors in understanding how Opportunity Zone investments may benefit by rolling over capital gains into communities to address local challenges.

Programs, guides and video recordings of the Opportunity Zones Meetup group may be found at:

<https://www.meetup.com/Opportunity-Zones/>



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## OPPORTUNITY ZONES

The Tax Cuts and Jobs Act passed in December of 2017 authorized tax incentives for investments into businesses and properties located within designated geographic areas – Opportunity Zones. The incentives are intended to influence investors to provide capital to distressed economic communities to generate jobs and aid the local economies. The IRS is completing the rules and regulations governing Opportunity Zone investments, but the opportunity to invest in and obtain investments within an Opportunity Zone is available now.

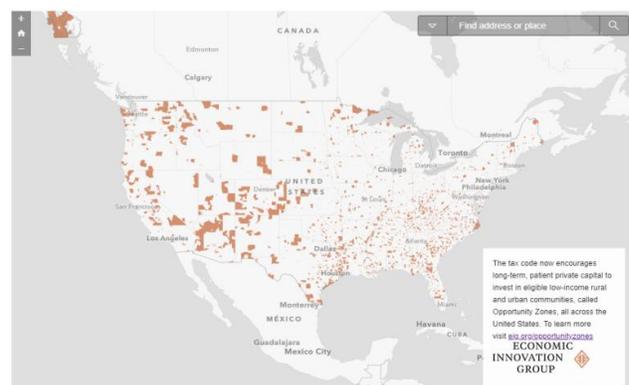
An investor who holds capital assets (stocks, real estate and other forms of property) with an appreciated value over the original purchase price may sell those assets and roll over their gains within 180 days into one or more Opportunity Zone Funds. The Funds re-invest the money into Opportunity Zone Businesses and/or Properties. The payment of taxes on the capital gains is deferred until the earliest of 2026 or the date when an investor sells their investment in the Fund. If an investment in a Fund is held for 5 to 7 years, the tax liability is decreased. The greatest benefit is that if the investor leaves their investment in the Fund for 10 years or more, all gains on the Opportunity Zone Fund investment are tax free.

Analysis by different investment advisors project that an investment in an Opportunity Zone Fund will earn 3% more money after taxes than an investment in a standard stock portfolio. Investments in successful businesses and property developments will realize even greater tax savings.

An Opportunity Zone Fund may be structured as a single investor, single purpose fund where an investor places their money to place their money with a specific Opportunity Zone Business or Property. A Fund may also be a multiple investor, single or multiple purpose fund in the form of a private equity or hedge fund. A Fund may participate in a syndicate of Funds on large projects. A Fund may also be collaboration with local, state or federal government agencies or districts as part of a community improvement project.

All existing laws governing the sale and purchase of securities apply to investment in Opportunity Zone Funds with standard restrictions on the participation of non-accredited investors, publication of the offerings and regulatory reporting.

8,700 Opportunity Zones have been certified in each of the fifty States and United States territories. A national map of Opportunity Zones and the history of the legislation may be obtained from the Economic Innovation Group at: <https://eig.org/opportunityzones>. Additional information with local maps and projects may be obtained from the economic development offices of each state. Local communities have been advised to create a ‘prospectus’ of Opportunity Zone investment opportunities within their local areas.



As proven by the JOBS Act and investment crowdfunding, a business seeking investment through an Opportunity Zone Fund must recognize that the establishment of a new capital source does not automatically result in an investment. An investor will not simply make an investment because of the new tax advantages. To gain the greatest benefits, an investment in an Opportunity Zone Fund is a long term investment that requires ‘patient capital’. Many investor candidates may be unwilling to place their money into a business or property development for this period of time.



The Opportunity Zone Business or Property Developer must be ‘ready to receive capital’ by developing a capital campaign where it clearly communicates its potential to qualified investor candidates that have a high interest in the success of the Business or the Property. This Opportunity Zone Business or Property may be able to obtain money from a large Opportunity Zone Fund or it may be necessary for it to create its own Fund as a pass through vehicle for its own use.

An Opportunity Zone Business or Property must compete for investment money by making itself more attractive than other investment opportunities. In addition to all of the common activities that may make an investment more attractive, some actions that may enhance the appearance of the opportunity and reduce the perception of risk include:

- Investments that include land, buildings, equipment or other capital assets that serve as collateral
- Quantification of social metrics representing ‘impact’ benefits to a community or a cause
- Joining with other Opportunity Zone Businesses or Properties where the investor is investing into a pool of investments
- Participating in an economic development project where part or all of the risk may be shifted to a government agency, foundation or other organization



Interest in Opportunity Zones is growing quickly as investors with capital gains seek to reduce their taxes and businesses, property developers and communities position themselves to raise money from this source. A variety of programs are being launched to help make this type of investment happen.



## CASE STUDY: INNOVATION HUBS

The tax incentives to help distressed economic communities – Opportunity Zones – may benefit greatly from building ‘innovation’ into the menu of projects that under consideration by community planners as they look at business and property development projects.

Last week, the State of Colorado hosted Colorado Opportunity Zone Deal Making Event it announced the launch of [Colorado-Investment.com](http://Colorado-Investment.com) – a new website that matches sources of money with businesses and property developers needing funding.

The Event showcased Colorado communities working to address all of the challenges that they commonly face: (1) Jobs, (2) Housing, (3) Transportation, (4) Food, (5) Healthcare, (6) Internet Access, (7) Training and Education, (8) Infrastructure [Power, Water, Waste], (9) Limited Population and Industries [Rural], and (10) Public Safety. The question is raised whether these efforts to achieve equality with more affluent communities should also include efforts to get ahead by building ‘innovation’ into the economic mix. Innovation has long been a centerpiece of economic development planning.

<https://www.brookings.edu/essay/rise-of-innovation-districts/>

However, innovation was rarely mentioned by Colorado communities as they pitched for Opportunity Zone investments.

Innovation may take many forms. It may take the form of a building that supports innovation, a research and development project or simply a collaboration to upgrade the infrastructure of the community.

Because of the restrictions on use of Opportunity Zone investments, at least 63% of the money may need to go into upgrading a property or acquiring equipment to be located on the property. This amount can be reduced if the Opportunity Zone Fund invests money into an Opportunity Zone Business and that business can conduct the majority of its business within an Opportunity Zone.

A building may be no more than a common working space – offices, labs and/or equipment – where innovative businesses are recruited to locate their headquarters to make themselves eligible for Opportunity Zone investments.

A more aggressive approach will seek out and engage in research and development activities led by the building owner in support of a tenant or as a collaboration of tenants. This effort should seek to establish a leadership position within a field of science or industry that will gain a competitive advantage and make it attractive to other businesses to relocate to the facility. Better yet, the facility will target a specific problem to be solved that will give a focus to tenant selection and recruitment. Optimum planning will focus on addressing a problem faced by the community in which the building is located that may be replicated and exported to other communities.

Every community that I have talked with has a shortage of housing. It makes sense to combine any innovation facility with new housing to achieve a live/work/play design. The addition of a coffee shop, day care center and other common services will enhance this design. A maker space can leverage the capabilities of the building and equipment for people of all ages and serve as a skills training center for local schools and job programs.

The facility must have broadband Internet access. If this is a challenge within a community, the innovation facility may make the recruitment of and investment in a business providing this service its first priority.



Any new construction should implement a 'net zero' objective with the building having its own water management, waste recycling and power generation to give it autonomy without placing greater pressure on existing municipal utilities.

Integration of the innovation facility into local education and economic development programs will make it a key asset of a community. It may serve a symbol of the future, particularly in rural communities, where youth are migrating to urban areas in search of jobs.

Each additional feature added to an innovation facility will require additional planning, investment and management. It will be difficult to find people with the skills and experience to be everything needed to manage the facility and push activities to achieve a competitive position. It may be necessary to team with other innovation facilities in other communities and to share back office systems to reduce costs and elevate capabilities.

## 200 AIRPARK DRIVE

Julia Zimbron is the owner of Fort Collins Airpark Properties, LLC which is a 2.3 acre parcel with commercial buildings located within an Opportunity Zone in the City of Fort Collins 2.4 miles from Interstate 25 and 1.9 miles from Old Town in Northern Colorado. It is near the municipal airport that was closed in 2006.



The property is zoned Industrial with 16,400 square feet of available space spread out over four buildings.



The property is very representative of many commercial properties with multiple buildings constructed at different times.

Mr. Zimbron is exploring the possibility of obtaining Opportunity Zone investments to upgrade the property leading to higher rent rates and greater revenue.

Because of its location within an Opportunity Zone, it has been suggested making the property into a home for multiple Opportunity Zone Businesses who need a business location or headquarters within an Opportunity Zone.

### **Model 1**

A bare minimum enhancement to the property would be to create a co-working space within one of the buildings with mail boxes, a Wi-Fi system and open or closed office spaces.

### **Model 2**

The value of the facility would be increased by adding laboratory and/or manufacturing space. This typically involves additional electrical power with hookups, air hoods and ventilators and fire suppression outfitting. Any specialty equipment results in focusing operations of the facility to those tenants who share a need for that type of equipment. It may be necessary to select a theme for a niche area of science of



industry to match the needs of enough businesses to achieve occupancy. Although this action will limit who is interested in the property, it will support a higher rental rate. At this point, the property takes on the aspect of an incubator, accelerator or innovation center. It may be associated with an industry association, an economic development program or an educational institution.

### **Model 3**

It may be decided to replace one of the older buildings and/or to construct new buildings on the site. These buildings may house additional equipment, provide more office space or add functions such as a delivery dock.

### **Model 4**

An alternative to work space is to add housing. A multi-story, multi-family apartment or condominium complex would offer commercial tenants the ability to house workers within walking distance. Adding housing will also address the needs of the community and open up several additional funding sources and potential partners in the project.

### **Model 5**

Using the property as a base or hub, its value may be expanded by hosting programs of value to the community that take advantage of meeting spaces on the property and any added special equipment or functions of the facility. This may take the form of a maker space, a training facility, a Meetup location for groups with themes aligned with the property or other purposes.

### **Model 6**

Another extension of the property may be to provide infrastructure to the community. This may be a standalone solar farm or it may be a public private partnership (3P) with local governments to establish, upgrade or replace Wi-Fi, water, power or waste management.



## FUNDING OPTIONS

Every project may be funded in several ways. A capital strategy should be developed for each project that identifies all sources of capital and prioritizes investor candidates based upon the time, money and skills of the organization seeking to raise funding. Each option has its own challenges.

A preliminary analysis of the Innovation Hubs project suggests several options:

- Funding the entire property as a single project
- Funding the project in parts: office, labs/production and housing
- Funding buildings separate from property
- Funding programs

### Monolith

In this approach, the Colorado Indoor Ag Cooperative would seek a single investment of \$410 million.

The dollar size of the offering may fall within the capabilities of a single Opportunity Zone Fund or a syndicate of large Opportunity Zone Funds.

The Coop may create a dedicated Opportunity Zone Fund limited to investment in the Coop, but the size of the Fund would require limitation to accredited investors within a 506c offering.

### Simple Capital Stack

In this approach, the Colorado Indoor Ag Cooperative raises a portion of the \$410 million through an equity investment and borrow the remainder. Depending upon the availability of debt financing in this size and the debt to equity ratio, it may be necessary to raise through an equity sale 20% to 40% of the total amount: \$82 million to \$164 million. This money may be raised through an Opportunity Zone investment, a classical investment or a program related investment (PRI) from a foundation.

Debt financing may be obtained from a foundation or through a bank loan that is guaranteed by the US Department of Agriculture, the US Small Business Administration or the US Department of Commerce. There are limits upon the loan size from each of these sources which means that a single, simple loan is probably not available.

### Tiered

This approach creates three different legal entities with responsibilities for sales, food processing and food production. By breaking the total cost of \$410 million into different levels and reducing the relative size of the equity and loan combinations, it opens up more possibilities.

### Tiered and Distributed

This approach is recommended where 70+ entities are created and funded separately: the Coop, each food processing hub and each community greenhouse business. Each entity is smaller in size which makes raising equity investment into each entity easier and meeting loan limits possible.



In addition, the food processing hubs and community greenhouse businesses are distributed over 70+ communities where they will have significant economic impact. As a result, these communities would support each individual capital campaign because they stand to gain from all of the non-monetary benefits: jobs and fresh food. Using common templates, the cost of raising capital will be only slightly higher than doing a single raise.

### **Extended Activities**

This approach anticipates joining forces between food production and housing and skills training and infrastructure development. The collaboration with other groups may prove easier than raising funds within the silo of local food. It also opens up additional funding sources which may only be available through local taxing districts, municipalities, and community organizations.





## INVESTOR CANDIDATES

The following groups have been identified as stakeholders that will benefit from the success of the Colorado Indoor Ag Cooperative and may support one or all of the fundraising campaigns to establish Opportunity Zone Funds. These groups have been ranked in order of their likelihood of making an investment:

1. Tenants
  - a. Specialty Equipment
  - b. Specialty Buildings
  - c. OZ Buildings
  - d. General Purpose Tenants
  - e. Housing Tenants
2. Vendors
3. Economic Development
4. Educational Institutions
5. Investors
6. Industry
7. Community

[See Stakeholder Chart – Schedule A]

These investors may invest money in amounts ranging from very small (\$100) to very large (\$10 million).

Incentives or perquisites for making an investment may be tailored to provide secondary (non-monetary) benefits that have greater value to each group.

Certain investors may contribute products or services that may be used as incentives for others to make investors.





## DEALS

The subject to this guide is Opportunity Zone investments which must take the form of cash for equity ownership.

### Equity

Equity investment may also be available from other capital sources without the tax incentives. It will be possible to break out the capital raise into stages with certain modules earning a return on investment high enough to attract angel investors.

Equity investment may also come in the form of a program related investment (PRI) from a foundation that is willing to earn a lower rate of return because the production of local food advances its mission.

### Debt

Bank loans may leverage equity investments. The debt to equity ratio is uncertain, but if a significant portion of the entire investment is placed into land, buildings and equipment that may serve as collateral, this should serve to greatly reduce the equity portion of the entire investment.

Loan guarantees are available from a variety of sources.

CO-PACE is a specialty loan program established within Colorado and adopted by 22 counties that enables loans from qualified institutions with the loans paid back out of property taxes. To qualify for loans under this program, the building structures must exceed standard environmental standards.

<https://copace.com/>

### Incentives

Tenants may be incentivized to support the project through an offer of discounts on rents and/or priority on occupancy. Vendors may be incentivized to support the project through grant of exclusivity in providing services or equipment.





## CAPITAL RAISE

This project offers several different approaches to conducting a capital campaign in different dollar amounts. These capital campaigns may be sequenced or conducted in parallel.

### Seed Funding

The project may raise a small dollar amount which is sufficient to engage in planning, permitting and engineering while gathering market information.

This funding may take the form of a grant or an equity investment in the project.

### Investment into Existing Buildings and Equipment and Programs

In addition to direct investment into the project, investments may be tailored to specific equipment, new buildings or programs. Breaking out investments into modules will enable potential pairing with specific tenants, economic development programs, educational institutions and investor preferences.

### Strategic Partnership

An alternative approach may be to find a strategic partner that will assume lead responsibility for acquiring and renting a bundle of equipment, constructing a new commercial building or residential housing. The owner of the property may form a subsidiary entity or take an equity interest in a new entity that would lead these activities. This has the advantage of shifting the workload from the property owner to the strategic partner.





## FUNDING QUESTIONS AND CHALLENGES

A preliminary analysis of the Indoor Hub shows several challenges to raising funds:

- Uncertain Market
- Uncertain ROI
- Established Competition

Each of these challenges represents a likely objection to making an investment which will narrow the number of prospective investors.



### Uncertain Market

There is a growing market for general purpose co-working space. This space may be attractive to Opportunity Zone Businesses seeking a headquarters site.

If special buildings (new or retrofit) and/or special equipment is acquired, these actions serve to narrow the market while increasing the costs of tenancy. The project will need to strike a balance between enhancing the property and assuring a large enough pool of prospective tenants.

### Uncertain Return on Investment

It is uncertain if the improvements to the property will be matched by equal or greater rentals rates.

### Established Competition

Many prospective tenants are working out of their garages or in spaces that less than optimum for their research, manufacturing or new business launch. Although inferior, these prospective tenants may choose to stay where they are.

There are many vendors of commercial space that all must be considered competitors of the project due to price, location, maintaining status quo (not having to move), access to transportation or other features.

There are a number of co-working spaces, incubators and accelerators within the city, region and state that offer some or all of the services and features that the project will offer.

### Multiple Opportunity Zone Funds

To upgrade the commercial property, it is possible to create multiple Opportunity Zone Funds that are dedicated to different objectives:

- Investment in Fort Collins Airpark Properties for all purposes
- Investment in the construction of a new commercial building or residential housing
- Investment in upgrading existing buildings with no ownership in the land
- Investment in programs that are hosted in the facility

### Staggered Funds

Different Opportunity Zone Funds may be established over a period of years.





## NEXT STEPS

The funding of an Innovation Hub may vary from the very small, very simple to the very large, very complicated.

This project will benefit from a survey of businesses that may fall within groups that will benefit from a particular type of building or special equipment. The project will be assessing if a particular combination of buildings and equipment will attract sufficient tenants to assure high occupancy. One of the high profile targets for tenants may be businesses operating out of their home and garages or other co-working spaces without any special equipment or facilities. Conversations with local economic development centers and small business development centers may provide a list of candidates.

This project will benefit from assessment of available and needed programs that may benefit tenants, local educational institutions, the community and economic development programs.

This project will benefit from obtaining bids for construction of new and/or special buildings and for housing and determining any issues with regard to greater density of use and with addition of housing.

With gathered information, it will be possible to create a strategy, develop a plan and conduct a capital campaign to raise any needed funds or secure in-kind contributions of assets.



## RESOURCES

### State of Colorado

The State of Colorado has launched a matchmaking tool on the website for the Office of Economic Development and International Trade:

<https://www.colorado-invest.com/>

The State of Colorado also provides information on a variety of resources regarding Opportunity Zones including an interactive map of all Zones within the State.

<https://choosecolorado.com/opportunity-zones/>

### Economic Innovation Group

This organization helped engineer the tax legislation authorizing Opportunity Zones. This site has a national interactive map of Opportunity Zones.

<https://eig.org/opportunityzones>

### Internal Revenue Service

Frequently Asked Questions - <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>

Proposed Regulations - <https://www.irs.gov/newsroom/treasury-irs-issue-proposed-regulations-on-new-opportunity-zone-tax-incentive>

### Opportunity Zones Meetup

Programs, video recordings and guides on different Opportunity Zone projects and challenges with links to other sources of information.

<https://www.meetup.com/Opportunity-Zones/>

### Maker Spaces

More information is available on maker spaces as local innovation programs.

Entrepreneur Learning Institute

<https://bit.ly/2HqLz4>

Colorado Maker Spaces

<https://coloradomakerhub.org/>



## AUTHOR

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Mr. Dakin is a professional entrepreneur with 40 years' experience in innovation commercialization. Mr. Dakin is a:

- Respected educator
- Extraordinary communicator;
- Developer of innovative funding approaches, and
- Small business advocate.

Mr. Dakin is engaged in new product, business and economic development. He splits his time between helping organizations raise funding, leading individual projects and sharing information on entrepreneurship, strategy development and early stage capital formation.

He is the:

- Owner of Dakin Capital LLC where he coaches organizations in designing, developing and conducting capital campaigns;
- CEO of Invest Local Colorado LLC, an investment crowdfunding platform services provider and registered Intermediary in Colorado.

A frequent writer, speaker and instructor on entrepreneurship and raising capital, Mr. Dakin is a member of the Board of Editors for the Journal on Technology Transfer and Entrepreneurship published by Bentham Science Publishers. He leads a Meetup group on Opportunity Zones and is supporting several projects.

Mr. Dakin was named to Who's Who in Impact Investing – Rocky Mountain Region – 2017 by the Denver Business Journal.

He is a licensed attorney in Colorado.



## OPPORTUNITY ZONES MEETUP

This Guide is intended to supplement the Opportunity Zones Meetup events with additional information. I appreciate all feedback on how to make this publication of greater value to the Members of the Opportunity Zones Meetup group.

Sponsorship is sought to cover the cost of presenting, recording, broadcasting and promoting the Opportunity Zones Meetup. A business, government organization, or foundation may sponsor a single event, a group of events or the entire 2019 program. Sponsors will be recognized at the events, in the videos and guides and in other promotional efforts.

With sponsorship, I am interested in expanding the Opportunity Zones Meetups to host events in additional cities across the United States.

Questions concerning this Opportunity Zones Meetup Guide, sponsoring the Opportunity Zones Meetup or hosting Opportunity Zones Meetups in other cities should be directed to:

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# SCHEDULE A – INVESTOR CANDIDATES

